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NATIONAL POLICY AND ISSUES

DIFFERENCE BETWEEN PRODUCTIVE AND NONPRODUCTIVE LABOR UNDER SOCIALIST SYSTEM

HK301400 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 9, 20 Sep 81
pp 22-29

[Article by Wang Jiye [3769 4480 2814]: "On the Difference Between Productive and Nonproductive Labor Under the Socialist System"]

[Text] The correct distinction between productive and nonproductive labor involves not only the basic principle of political economics, the scientific categorization of the structure of the national economy, the social product and the national income, but also exerts a direct impact on the indicator system of planning and statistics. In the last 6 months, a number of articles have been published in succession in the newspapers and periodicals, presenting discussions on this topic and airing opinions different from those in the past. Some comrades maintain that socialist productive labor comprises that which is undertaken under the socialist production system without exploitation and for the purpose of satisfying the physical and cultural needs of the society. Socialist productive labor is not confined to the production of materials only. It includes both physical labor and mental labor, with those in physical material production satisfying the needs of material life and those in nonmaterial production satisfying the needs of cultural life. National income comes from both the material production realm and the nonproductive realm.

Those comrades who take the above viewpoint also maintain that the theory claiming that under the socialist system productive labor comprises only the production of physical materials do not follow the Marxist doctrine of productive and nonproductive labor, nor is our present distinction between productive and nonproductive labor and the computation of national income in conformity with the original intention of Marx both in the sense of extension and intension. They come to the conclusion that our negligence of commerce, the service trades, science, education and cultural work as well as the refusal to accept those who work in these areas as part of the working class for a long time in the past was the negative outcome of the incorrect distinction between productive and nonproductive labor.

This being so, it is quite necessary for us to clarify what is right and what is wrong in theory through discussion and make a correct distinction between productive and nonproductive labor, if we are to persist in the economic doctrine of Marxism and to expedite the healthy development of our economic construction.

Three Difficult Points

To distinguish between productive and nonproductive labor, we have to trace back to Marx's theory about productive and nonproductive labor under the capitalist system. This has been a theoretical issue for a long long time, and I think that this is quite a difficult problem in political economics. By and large, three aspects may be mentioned in this regard:

First, in the understanding of some comrades, it was Marx's viewpoint that what comprised productive labor covered more than that of the workers who created surplus value in the field of material production, as all labor that provided capitalists with profit (including labor in the nonproductive field) was considered as productive. For example, the labor of singers, dancing girls, actors, and so on, just as the labor that produces material products and creates surplus labor, would also be productive labor. Then, arises the problem: While Marx mentioned more than once in his book "Das Kapital" that productive labor was that which created surplus labor in the process of capitalist production (material production), why did he again devote considerable space in his book the "Theory of Surplus Value" to explain that all labor that provided the capitalists with profits would be productive labor?

Second, in the discussions many comrades quoted Marx's comment on the first definition of productive labor formulated by Adam Smith as the ground for their argument. To be specific, in what sense exactly did Marx endorse or approve the first definition of productive labor formulated by Adam Smith? To put it briefly, Smith's first definition meant the following: Labor expended in exchange for capital constituted productive labor, while that expended in exchange for income constituted nonproductive labor. Since the labor that is exchanged for capital is integrated into capital itself, the integrated labor becomes part of capital, not only replenishing the laborer's value of consumption, but also providing a certain amount of surplus value. For this reason, it is productive. On the other hand, since the labor that is exchanged for income does not constitute a capital forming factor, it is unable to provide the capitalists with a surplus. Hence, its nonproductivity. Then, can it be understood that Marx's endorsement or approval of Adam Smith's first definition of productive labor could mean the definition became Marx's own definition?

Third, does the word production in the phrase productive labor have the same meaning or some different meaning when compared with the word production in the phrase the sphere of material production? The Chinese version of the "Collected Works of Marx and Engels" published in our country was retranslated from the Russian version of the works, in which it can be found that the two words "production" in Russian are two different words. The former means effectiveness brought about by production, a synonym for labor productivity. It seems that this word should be translated as labor of a productive nature. The latter means material production, bearing the same meaning as the word production in the process of production. In the Russian version, the two words cannot be used interchangeably, while in the Chinese version the two words have been translated the same. This causes a lot of trouble in the discussions on productive labor and the limit of the sphere of material production. Then, can it be said that the size of the sphere of socialist productive labor coincides with that of its corresponding

sphere of material production? In the case of productive labor which corresponds to the sphere of material production, is it to be understood as productive labor as dictated by the material conditions of labor or is it to be understood as productive labor as dictated by the social conditions (production relations) of labor?

The above-mentioned three problems constitute the crux of our current discussion on productive and nonproductive labor. If we bypass these problems, it seems that no satisfactory or convincing conclusion can be drawn from any postulations.

General Productive Labor and Special Productive Labor

Let us investigate the problem from the facet of the mutual relations between general productive labor and special productive labor.

Labor is a process. First of all, labor represents a relation between mankind and nature. This is to say, through its own activities, mankind regulates and controls the material mutation between mankind and nature. To get the expected results from the labor process, there must be the simple or most essential elements. They are purposeful activities or labor itself, the subject of labor and the means (or instruments) of labor. This is seen from the viewpoint of the labor process. Seen as the results of labor, or investigated from the angle of labor products, the means of labor and subject of labor are manifested as means of production, and labor itself is manifested as productive labor. In this way, it can be said that the labor which produces products is productive labor, and its corresponding labor process is a productive process. If the result of the labor process is not a product with use value but a waste product, even with the completion of the labor process, the labor so expended does not constitute productive labor, nor can the corresponding labor process be deemed as a productive process. Whether labor can be manifested as productive labor depends on three things: (1) It cannot be separated from the labor process; (2) it cannot be separated from the simple elements of the labor process; (3) it cannot be separated from the labor product. This kind of productive labor never alters with the mutation of various social economic modes, because labor like this is an extension of the material property of labor rather than that of the social property of labor. "In terms of the labor process itself, only labor with a product (namely a material product, as only material wealth is involved here) can be productive." (Marx: "The Result of the Direct Production Process," People's Publishing House, 1964, p 114) We can [call] such labor productive labor in general or general productive labor.

General productive labor varies in form under different social systems. As for productive labor with a special form, we call it special productive labor. In capital production, how is general productive labor manifested as special productive labor? As far as capitalist production is concerned, the deciding factor of the mutation from general productive labor to special productive labor is the creation of surplus value, since the search for surplus value is the goal of capitalist production. In this sense, only the labor that creates surplus value is productive labor, and the creation of surplus value is carried out in the sphere of material production. Under the capitalist system, productive labor is the labor that creates surplus value in the process of the production of material products.

on the general productive labor manifesting itself as the labor that creates surplus value in the process of material production, namely, special productive labor, does it also manifest itself as the wage labor in the nonproductive sector that provides the capitalist with profits? This would involve the question--in what sense did Marx approve of Adam Smith's first definition of productive labor.

Adam Smith wrote: "For certain labor, when it is applied to a subject, it adds value to that subject. This does not work for other kinds of labor. The former is called productive labor, as it creates value; while the latter is called nonproductive labor." (Quoted by Marx in his work "The Theory of Surplus Value," "Collected Works of Marx and Engels" Vol 26, I, p 146) Regarding this, Marx commented: "Productive labor is such that it creates surplus value--its owner's profit--in addition to the reproduction of its own (the wage laborer's) living expenses." (Marx: "The Theory of Surplus Value," "Collected Works of Marx and Engels" Vol 26, I, pp 146, 148, 142 and 143) Marx further pointed out: "In a definition prescribed for productive labor from the point of view of capitalism, Adam Smith has touched on the essence of the problem and grasped the main points. One of his great scientific contributions (just as Malthus correctly points out that Smith's distinction between productive and nonproductive labor still constitutes the foundation of the whole bourgeois political economy) lies in the fact that he was the first one to formulate the definition that productive labor is labor that is exchanged directly for capital." (Ibid)

A correct understanding of this comment made by Marx is extremely important. The reason is that the labor which is exchanged for capital includes not only wage labor that engages in material production, but also that which belongs to the nonproductive category. Smith was of the opinion that both were productive labor and Marx agreed. Does this imply that Marx's doctrine of productive labor under the capitalist system is a simple repetition of Smith's first definition of productive labor? This definition is considered to be the foundation of the whole bourgeois political economy. How can this be understood? In my opinion, the theme which equates Smith's first definition of productive labor with Marx's contention is quite debatable. When Marx went on commenting on Smith's first definition of productive labor, he quickly made another comment: "Here, the distinction between productive and nonproductive labor is made from the point of view of the money holders, the capitalists, and not from the point of view of laborers." (Marx: "Theory of Surplus Value," "Collected Works of Marx and Engels," Vol 26, I, pp 146, 148, 142 and 143) How should this be explained? My understanding of this is as follows: Marx's approval of Smith's first definition of productive labor must be taken into consideration in comparison with Smith's second definition (productive labor is the labor that has been embodied in commodities.) The definition which Marx agreed upon reflects the viewpoint of the money holders, or the capitalists.

What then were the viewpoints of Marx regarding reproductive labor under the capitalist system?

Marx said: "In the sense of capitalist production, productive labor is a kind of wage labor which is exchanged for the variable part of capital (the part of capital which is expended for wages) and which is not only capable of reproducing this part of the capital (the equivalent of the costs of the laborer's own labor power), but also creates surplus value for the capitalists in addition. Through

this and this alone are commodities and money transferred into capital, enabling capital to be produced." (Ibid)

Some articles maintain that this passage may not be entirely the same as the original quotation of Adam Smith's, but is a restatement of Adam Smith's idea by Marx. I don't think this is true either. Leaving aside for the moment the concepts used in the passage (for example, variable capital and surplus value) which could not possibly be used by Smith, what is more important is that what is referred to here as "creating surplus value for the capitalists" means the creation of surplus value created by the wage laborers in the material production sphere without any indication of the implication that laborers in the nonproductive sphere also create surplus value. Marx resumed his comment immediately by pointing out that the existence of the capitalist class is built upon its corresponding rate of production, or in Marx's own words, "the workers not only replenish the original value, but create new value. The labor time which is embodied in the commodities is more than that embodied in those products required for the subsistence of the workers. This wage labor of production is the very foundation of the existence of capital." (Ibid)

Therefore, I believe that when Marx said that productive labor in the capitalist sense is that which creates surplus value, he meant the labor of those who engaged themselves in material production, excluding the labor of those who worked in the nonproductive sphere.

Some comrades pointed out that in the days of Marx, capitalist scientific research, culture, art, education, sanitation and other related nonmaterial production sectors were still very much undeveloped. Just as Marx himself had pointed out, all these manifestations of capitalist production in the aforesaid sectors, compared with those of the entire production, would have been quite negligible, and therefore could be ignored. If Marx had witnessed the reality of today, he would not have made such a comment as "not to be mindful of them." At first sight, this seems to be an important point, but on second thought, with careful analysis this point is also open to question. Indeed, Marx did once say: "Such labor in comparison with the volume of capitalist production is minimal approaching zero...Therefore, it is permissible to be not mindful of them." However, Marx immediately added: "This labor can only be discussed when it is in the form of wage labor, without being productive labor at the same time, and when it falls into the category of wage labor without being productive labor at the same time." (Marx: "The Outcome of the Direct Production Process" pp 112, 105) Under the capitalist system, not all wage labor is productive labor, even though all productive labor is wage labor. From the above exposition by Marx, no conclusion can be drawn to the effect that this labor is productive labor. In view of the actual situation, these sectors take up a considerable percentage of the capitalist national economies, exerting important influence over the development of material production. If we regard this labor as productive labor on these grounds, the conclusion would be quite doubtful too. The percentage growth of these sectors in the national economy does not indicate that the labor concerned has undergone a change, a transformation from nonproductive labor to productive labor.

Under the capitalist system, the reason why labor in these sectors is regarded as productive labor is merely that part of the productive labor takes a distorted

... (1981) which labor producing no surplus value takes the appearance of creating the surplus labor. For example, in the case of a theatrical company owned by a capitalist, the wage labor of the actors brings profit to the capitalist. To the capitalist, such labor is productive. However, in terms of form of value, the total income of this theatrical company is transferred from the value created by workers in the material production sectors. In terms of physical form, the wear and tear of the physical assets used by this theatrical company are also replenished by the products of the material production sectors. It can be (visually) seen that the taking on of the appearance of redistributing surplus value in the nonproduction areas is only a phenomenon which is more illusory.

As demonstrated above, under the capitalist system the general productive labor is manifested as special productive labor as well as the labor creating surplus value. Thus, the labor that directly creates surplus value can be productive labor, and only those who expend labor that directly creates surplus value can be productive workers. In other words, productive labor can only be that which is expended directly for the purpose of multiplying value for capital in the process of production. (Marx: "The Character of the Direct Production Process," pp 112, 105) Clearly, this special productive labor cannot exist in the absence of general productive labor, as the former is only a form of manifestation of the latter. It is exactly in this sense that Marx said: "The capitalist labor process just cannot eliminate the general property of the labor process." (Ibid)

Productive Labor Under the Socialist System

It is my belief that first of all we should take into consideration the relationship between general productive labor and special productive labor, when we discuss the transformation of general productive labor into special productive labor under the socialist system. As to the problem of distinguishing the material production areas and the nonproductive areas, this is the problem to be studied next. Then, how is general productive labor manifested as special productive labor?

Marx said: "Suppose no (capital) exists and workers receive their own surplus labor with the result that the value they create would exceed what they consume. It is only in such a situation that labor is truly creative. That is to say, new value is created." (Marx: "The Theory of Surplus Value," "Complete Works of Marx and Engels," Vol. 26, 2, p 143) This assertion of Marx provides us with a clue for the study of productive labor under the socialist system.

First, the individual economy still exists in socialist society. The labor of the self-employed laborer, viewed from the angle of general productive labor, is productive labor; while viewed from the angle of special productive labor, it is not. It is a transitional form heading for socialist productive labor. After we speak of it as socialist productive labor, we are referring to the transitional property of such labor.

Second, the labor that produces the commodities for the necessary labor, viewed from the angle of general productive labor, is also productive labor, because it creates the physical commodities and value needed by the laborers (workers) for their means of subsistence. Viewed from the angle of special productive labor, it is again not productive, because it is unable to satisfy the growing needs of

the laborers and provide them with the needed material products for their material and cultural life. When we speak of it as socialist productive labor, we are referring to it only in the sense that it satisfies the daily necessities of life of the laborers, rather than taking it as productive labor in the sense that it satisfies the growing material and cultural needs of the laborers' life.

Third, in terms of the social property of productive labor, in the sense that general productive labor is manifested as special productive labor, I believe that under the socialist system productive labor is that which produces surplus products. Labor that produces surplus products is labor that satisfies the growing material and cultural needs of the society. However, the reverse is not true. It cannot be said that all labor that satisfies such needs is productive labor, because the latter includes not only the labor that creates surplus products, but also that which belongs to the nonproductive area producing no surplus products. To take the labor that satisfies the growing material and cultural needs of the society as productive labor necessarily gives rise to various queries.

If we take all labor that satisfies the needs of the society to be socialist productive labor, then with the extermination of the exploiting class in our country, what labor is there that does not satisfy the needs of society? Even the labor of those who are in government service exists for the satisfaction of the needs of the society. Without their labor, the life of the society would be thrown into chaos, socialist construction would be stopped, and the needs of the society would be left unfulfilled. It is quite obvious that to define productive labor in terms of the concept of satisfying social needs actually is equating social labor with productive labor.

If we accept the assumption that socialist productive labor includes both the labor that produces material products services, then it naturally follows that both of them should be able to furnish surplus products. Actually, however, the non-productive labor that satisfies the needs of society does not furnish surplus products. In furnishing services, definitely there would be wear and tear of fixed assets and consumption of fuel, and so on, and these will be replenished by products produced by the material production sector. Indeed, the service sector has its own monetary income and management expenses, but they are the results of the redistribution of national income created by the material production sector.

As to the division of the material production sector and the nonproductive sector in comparison with the distinction between the productive and nonproductive labor in terms of social properties, they are problems of different levels. The social property of productive labor, or special productive labor, is not suitable for dividing the material production sector and the nonproductive sector. It is the material property of productive labor, or general productive labor, which comprises the basic ground for dividing the material production sector and the nonproductive sector. In terms of economic work, the concept of socialist productive labor is more suitable for research work and for indicating labor productivity and the economic effectiveness of other areas, while the concept of general productive labor is suitable for dividing up the material production sector and the non-productive sector. In the total material output are included not only the material products of those laborers who are capable of producing surplus products, but also the material products of those laborers who do not produce surplus products (11)

...the products of the enterprises that fail to make a profit or incur losses). Besides, in the total material output is also included the products of the laborers who operate under nonsocialist production relations (for example, the products of self-employed laborers, the products of household sidelines in the countryside, and so on). If a comparison is made of the distinction between productive and nonproductive labor and the division of the material producing sector and the nonproductive sector, it can be said that the delineation of the material producing sector, comparatively speaking, is more in direct contact with general productive labor. Therefore, it is of special importance to investigate the division of the material production sector and the nonproductive sector under the socialist system.

The Material Production Sector and the Nonproductive Sector

In terms of the properties of general productive labor, what departments should fall into the material production sector, and what departments should fall into the nonproductive sector? I propose to discuss four aspects of this problem:

Judged from the angle of whether or not material products are produced, those that are capable of producing material products fall into the material production sector, while those that do not produce such products fall into the nonproductive sector. Communications, transportation, posts and telecommunications, commerce, material supplies and sales as well as other departments are the extension of material production in the process of circulation. Even though they do not produce material products directly, nevertheless they comprise the indispensable link in effecting consumption of the material products (consumption for production as well as for daily life). Without this link, it is impossible for the material products created in the direct production process to be materialized as use value and value.

Viewed in terms of the nature of consumption, the consumption in the area of material production is productive consumption, as the consumed material wealth is incorporated into the use value of the product. While the incorporated value of material wealth is transferred to the new product, the consumed living labor also creates value. The labor consumed in the nonproductive area is also consumption (for example, the consumption of mental power, physical power, fixed assets, energy, and so on), but it does not form material products. This kind of labor consumption cannot be embodied into the material product. Therefore, it is nonproductive consumption.

Viewed in the light of consumption replenishment, the material consumption in the area of material production is to be replenished by new products of its own area, or to be compensated by the production compensation fund. In the nonproductive area, the material and labor consumed are to be replenished by surplus products furnished by the productive areas.

In terms of the products of consumption, the products of the area of material production are newly produced material wealth, while the results of consumption in the nonproductive area are the new needs for material wealth.

The above are the main indicators for dividing the material production area and the nonproductive area. Here, we may as well mention another problem. In some economic statistics work, instead of dividing the whole national economy into a material production area and a nonproductive area, it is divided into a material production area and a nonmaterial production area. The concept of nonmaterial production area used here is by no means exact and unambiguous. It may give the reader the following impression: In the light of the national economy as a whole, all labor is productive and falls into the area of production. The difference is that one category produces material products while the other category produces nonmaterial products. For this reason, I suggest that the concept of the nonmaterial production area should be nullified and in its place the concept of a nonproductive area should be used in order to prevent misunderstanding.

With reference to the division of the material production area and the nonproductive area, disputes arise more from the problem of setting boundaries for the nonproductive area. In the broadest sense, it can be said that the nonproductive area comprises the service sector. In the relatively narrow sense, the service sector refers mainly to the sector of services for people's daily life. The main feature of the service sector is its provision of use value. In actual economic life, service activities are multifarious. Conceptually, service is a complex notion. Consequently, it is necessary to make a concrete analysis regarding the contents and features of labor devoted to services.

First, the department in direct service of production. For example, in the broad sense, the maintenance of the means of production (fixed assets) should also fall into this category. In essence, it is an activity relating to material production, and should be included in the department of material production.

Second, the trades offering services to people's daily life with business income. Let us take for example the repair trade for consumer goods. At first sight, it seems that this trade should fall into the category of material production on account of the fact that it restores the use-value of durable consumer goods with the nature of industrial operation. It also provides income for the laborers in this trade. On second thought, however, the materials consumed by the repair service trade are furnished by the laborers of the material production sector. The income in this trade is just a redistribution of national income created by the laborers of the material production sector. Moreover, the repair of consumer goods takes place only after they are transferred from the material production sector to the consumption sector where with a lapse of time they are worn down by wear and tear. On account of this, to include the repair service for consumer goods in the material production sector awaits further consideration. The same situation exists in other service trades, such as barber shops.

Third, the service departments which serve the reproduction of labor such as education, health, and so on, should not be included in the material production section. The labor of the laborers of these departments, important as it is, nevertheless does not act on the subject of labor in the material production process, nor does not create any material products which exist by themselves separate from human laborers. It is exactly for this reason that education, health, and certain other departments have no source of direct compensation funds for the materials and labor they consume, nor the corresponding material products

the compensation funds. Marx said: "The labor of doctors and teachers does not directly create the funds out of which payments are made for their remuneration, even though the injection of their labor would mean production expenses which generally comprise the funds by which all value is created, or to put it in a different way, the production expenses which are added to labor power." (Marx: "Theory of Surplus Value," "Collected Works of Marx and Engels, Vol 26, I, pp 159-160) Some comrades not only regard the labor of teachers that transfers knowledge as productive labor, but also think that those who are educated, by virtue of the fact that they receive education and training coupled with independent deliberation and studying, also exert labor which should be classified as productive labor. I don't think this is appropriate.

Fourth, the cultural and arts sector. Certain parts of this sector do not turn out products (for example, dancing and acting); these should be included in the nonproductive sector. Other parts do provide material products (for example, the publishing houses, the motion picture industry, and so on). These should be included in the material productive sector.

Fifth, the science and research department. Science and research, including technology, do perform important functions. With the exception of science and technology that act directly or indirectly on the production elements, the other science and research departments are not productive departments. This is because their labor results do not constitute the actual productive force in direct form. It takes a transitional process for them to combine with the production elements and play their role in promoting production. Through raising the technological level of the laborers, improving the instruments of labor or improving their efficiency, and providing high quality or new subjects of labor, science and technology play their role of promoting labor force.

As this is a relatively more controversial problem, eliciting different understandings of Marx's exposition, I think it is quite necessary to interpret the following passage by Marx.

Marx made the following comment on productive labor in the capitalist sense: "It is from the direct product of an individual producer that a product is transformed into a social product, and the common product of all the workers or the combined laboring members. The various individuals of the total of workers directly or indirectly, in the relative sense, work on the subject of labor. Therefore, with development of the cooperative nature of the labor process itself, productive labor and its bearer--the productive worker--as a concept necessarily become wider in scope." (Marx: "Das Kapital" Vol 1, People's Press Publishing House, 1975, p 556) Various labor power "takes part directly in very diverse forms in the process of commodity formation or product formation (here, the process of product formation is more nicely put): some work mainly with their hands, some work mainly with their brains, some work as managers, engineers, technicians, and so on, some work as supervisors and some work as manual laborers doing simple and rough work. As a result, more and more functions of labor power are included directly in the concept of productive labor." (Marx: "The Outcome of the Direct Production Process" pp 106-107) "It is of no relevance whether the function of an individual laborer in his capacity as a simple member of the total laboring class is very close to or far removed from plain manual labor." (Ibid)

The following is my crude understanding of Marx's exposition. In regard to whether or not the labor of a mental worker can become productive labor, first of all we should note whether or not it exerts indirect action on the subject of labor (the most important factor). Second, we should note whether or not it participates in the process of product formation. Third, in the case of indirect action on the subject of labor, or in the case where the function of a mental worker is far removed from rather than close to that of manual labor, no inference should be drawn that "we should begin with the workers who act directly on the subject of labor and then extend outward layer by layer to the remote area." If deductions along this line are continued, the dividing line between "direct" and "indirect" will be blurred, and the sequence would be "direct," "indirect," and further "indirect" heading for infinity with the result of making the total social labor productive labor.

Leaving out the capitalistic nature of productive labor, the exposition of laborers in totality by Marx as mentioned above also applies to the socialist production process. The labor of mental workers can become productive labor, only when it is applied indirectly to the subject of labor (extending layer by layer to the remote area makes no sense). The examples quoted by Marx in regard to capitalist productive labor were workshops. In the socialist economy, should this scope be extended? And to what extent? This is a question worth discussing. My preliminary conclusion is that it can be extended to the range of integrated enterprises and specialized corporations, provided that these corporations are those which function as organizers of production rather than being merely administrative or general economic management entities. As for the labor of those who work in science and research institutions and economic management departments, it should not be regarded as productive labor.

Sixth, the government organizations (including economic management departments). They exercise the function of organizing social production. However, they do not create material wealth. What they do is to formulate the plans and programs of social and economic life, and to accumulate such experiences. In this respect, they are similar to those departments that supply cultural wealth.

What is still left untouched is the rather difficult department of finance. Its labor deals with the management of monetary funds and the promotion of coordinated development of the various sectors of the national economy through bank credit in incessant circulation. A part of the activities of this department are credits in the service of production. The other parts are in the service of nonproductive activities (for example, the work on savings deposits). The former activities are similar to productive labor. When Marx analyzed the general process of capitalist production, he included money capital and commercial capital (commodity capital) in the distribution of surplus value in the process of material production due to the fact that the movement of capital invariably takes the form of money capital, production capital and commodity capital in succession.

I have made a preliminary probe, as shown above, into the question of the distinction between productive labor and nonproductive labor as well as the question of division of the material production sector and the nonproductive sector. Inappropriateness being hard to avoid, I welcome criticism and correction from my fellow comrades.

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NATIONAL POLICY AND ISSUES

LAW OF SUPPLY, DEMAND DISCUSSED

HK020539 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 9, 20 Sep 81 pp 30-37

[Article by Lin Wenyi [2651 2429 4135] and Jia Liran [6328 1462 6245]: "On the Law of Supply and Demand and Its Role in the Socialist Economy"]

[Text] In the recent study of the theory about regulating the socialist economy, we neglected the study of the law of supply and demand, which is peculiar to the realm of circulation of commodities in the market. In discussing the basis of regulation by market mechanism, people generally summed it up as taking the law of value as the basis of regulation. We believe that this is a major defect. We will present our views on this question in this article.

1. The Content of the Law of Supply and Demand and the Relationship of This Law With, and Its Differences From, the Law of Value

What is the law of supply and demand? Some comrades hold that it is a law concerning the equilibrium between the supply of and demand for commodities. Some other comrades hold that it governs the necessity for the supply of commodities to be compatible with the demand. A third group of comrades say that it governs the development from disequilibrium to equilibrium and again to disequilibrium in the supply of and demand for commodities. We think none of these are proper descriptions of the law of supply and demand, because they present it as a law concerning the relationship between the supply of and demand for commodities or concerning the movement of the contradiction between supply and demand, instead of one governing the relationship between supply and demand on one hand and price on the other as well as changes in supply, demand and price. It is incorrect to consider the equilibrium between the supply of and demand for commodities as a law, because equilibrium is only one form of existence of the contradiction between supply and demand, just as disequilibrium between supply and demand is the other form of existence of this contradiction. In the movement of this contradiction, the existence of equilibrium is relative, whereas the existence of disequilibrium is absolute, though in specific forms disequilibrium may appear as supply exceeding demand or the other way round. The change from equilibrium to disequilibrium and vice versa represent two tendencies in the movement and change of the contradiction between supply and demand. Therefore, we must not regard the regular tendency of the maintenance of equilibrium as a law, because the change from equilibrium

to disequilibrium is also a regular tendency. Marx said: "The regular tendency of the maintenance of equilibrium is only a counteraction to the constant disruption of such equilibrium." (Marx: "Das Kapital," Vol 1, People's Publishing House 1975 edition, p 394; same edition in further quotations) It is also incorrect to consider the necessity for the supply of a commodity to be compatible with the demand as a law, because considering the contradiction between supply and demand, the relationship between supply and demand is one of the unity of opposites. Supply and demand are both interdependent and relatively independent; they are both compatible with each other in a certain sense and incompatible with each other in another. Considering their compatibility with each other, supply not only closely follows demand, but also imposes a forceful constraint on demand; and on the other hand, demand not only helps determine supply, but also accommodates itself to supply. Therefore, supply and demand must be compatible with each other, and we must not only require supply to be compatible with demand. Whether we are talking about supply making itself compatible with demand or vice versa, these help constitute the substance of the relationship between supply and demand, as does the deviation of supply and demand from each other, and therefore cannot be said to constitute a law. As for the law concerning the change from disequilibrium to equilibrium and then again to disequilibrium, it concerns the contradiction between production and consumption as well as the reflection of this contradiction in the market. Therefore, the law governing the movement of the contradiction between the supply of and demand for commodities is not tantamount to the law of supply and demand.

What then is the law of supply and demand? We hold that it is the law governing how to change in the supply of or demand for a commodity and a change in the price of the commodity interact on, affect and determine each other. In other words, it is a law concerning how a change in supply or demand and a change in price serve as the cause and also the effect of each other. This is a law peculiar to the study of the circulation of commodities. At all times and in all countries, so long as commodity economy exists, changes in the supply of and demand for commodities as well as price changes do objectively exist and they appear as the cause and also the effect of each other; that is, changes in supply and demand will cause price changes, and conversely price changes will induce changes in supply and demand. The following is the main substance of this objective law.

1. A change in supply or demand will cause a price change. This finds expression in this form: prices will rise if supply falls short of demand and fall if supply exceeds demand.
2. A price change will induce a change in supply and demand. A price change cannot determine the total quantities of commodities supplied and the total quantities demanded. However, it can determine changes in the supply of and demand for some individual commodities. Marx said: "If supply and demand determine market price, then on the other hand, market price...in turn determines supply and demand." (Marx: "Das Kapital," Vol 3, p 213) This is manifested in the following way: "When a price rises, the immediate consequence is that a larger quantity of the commodity under consideration will be offered for sale

in the market, so that the quantity supplied will increase (for example, some products produced by producers for their own consumption will be converted into commodities); while the quantity demanded will decrease (because people's purchasing power is limited). The indirect consequence is that for one thing, because the price is higher, producers find it more profitable to produce the commodity under consideration, so that development in the production of that commodity is promoted, and this leads to an increase in the quantity supplied. For another thing, the decrease in quantity demanded help limit the production of those products which need that commodity as a means of production. Marx said: "The prices of the means of production which are converted into a commodity supplied determine the demand for these means of production, and hence determine the supply of that commodity... The price of cotton is of decisive importance to the supply of cotton fabric." (Ibid, p 213) When a price falls, the immediate and indirect consequences which affect supply and demand will be the opposite to those just mentioned.

3. A change in supply or demand and a change in price go in opposite directions and form a cycle. Specifically, when the supply of a commodity falls short of the demand, its price will rise. A price rise will cause an increase in the quantity supplied and a decrease in the quantity demanded, so that the shortage of supply in relation to demand will give way to an equilibrium between supply and demand. Moreover, if the price continues to rise, the supply will exceed demand. Then, the price will fall, causing a decrease in the quantity supplied and an increase in the quantity demanded, so that the excess of supply over demand will give way to equilibrium between supply and demand. Moreover, when the price continues to fall, supply will fall short of demand. These changes will recur, resulting in continuous cycles.

The roles of both the law of supply and demand and the law of value are closely related to price changes. If so, what are the differences and relations between these two laws?

Over many years in the past, some comrades have been confusing the role of the law of value with the role of prices, erroneously regarding the role of the law of supply and demand as being tantamount to the role of the law of value. This is precisely the cause of errors in understanding this problem.

The law of value is the basic law governing commodity economy. The objective requirement of this law is that commodities must be exchanged on the basis of their values because their values are determined by the necessary social labor time used in their production. Price is value in monetary form. Because the law of value requires the exchange of commodities to follow the principle of exchange at equal value, price must be compatible with the value it represents. Value is the basis on which price is formed; it determines price. That is, commodities of high value command high prices, and vice versa. Prices rise and fall with value; prices must change with value. Price changes must be centered round value as the core.

However, in actual buying and selling value may not always be consistent with price. Price may be compatible with value or may deviate from it, because the formation of a price not only takes value as the basis, but also takes supply

and demand as a condition. When supply falls short of demand, price will be higher than value. When supply exceeds demand, price will be lower than value. The supply of a commodity and the demand for it must be in equilibrium if price is to be compatible with value.

Because the deviation of price from value and the attainment of consistency by price and value depend on changes in supply or demand, the observation of the law of value is closely related to the role of the law of supply and demand, because when an equilibrium gives way to disequilibrium, the price will rise above value if supply falls short of demand or fall below value if supply exceeds demand, and conversely, when an excess of demand over supply or an excess of supply over demand gives way to an equilibrium between supply and demand, the price will proceed from a level that is higher or lower than value to a level that is consistent with value. Thus, the movement of price away from or toward value reflects the role of the law of supply and demand. This role is precisely the condition for the realization of the requirement of the law of value. This law requires that price must be compatible with value. Such compatibility requires that supply and demand must be in equilibrium. However, very often, equilibrium cannot be attained. Therefore, the requirement of the law of value can be realized only through upward or downward price movements in the long run and over the whole of society, movements in which price rises above or falls below value. Specifically, by virtue of the role of the law of supply and demand, that part of price in excess of value offsets the gap by which price falls short of value in upward and downward price movements induced by changes in supply and demand. Therefore, in the long run, or considering society as a whole, the overall level of commodity prices is equal to the overall level of value. Engels said: "Only by virtue of fluctuations caused by competition and consequently by virtue of fluctuations in commodity prices, can the law of value that governs the production of commodities be implemented, and can the determination of commodities' values by the necessary social labor time be realized." (Engels: "Preface to the German edition of 'The Poverty of Philosophy,'" in "Collected Works of Marx and Engels," Vol 21, p 215)

The roles of the law of value and of the law of supply and demand are interrelated and also differ from each other. The role of the law of value is that value determines price and is the basis on which price is formed. The level of value determines the level of price, but does not regulate it in such a way as to make price higher or lower than value. Such regulation depends on the role of the law of supply and demand. Therefore, we must not equate price changes with the role of the law of value or confuse the role of price with the role of the law of value. Price changes can be a reflection of the role of the law of value and can also be a reflection of the role of the law of supply and demand. Considering the former, if a commodity's value increases, its price will correspondingly rise, and vice versa. Considering the latter, if supply falls short of demand, the price will rise; and if supply exceeds demand, the price will fall. Therefore, the regulation of production and circulation by price cannot be attributed solely to the role of the law of value. It is possible for the law of supply and demand to play a role, and for both laws to play their roles simultaneously. Moreover, under general conditions, changes in value are relatively stable, while changes in supply and demand are much

more frequent and induce much more sensitive price changes. Understanding this point is of great significance in applying the law of value and the law of supply and demand under socialist conditions, to setting prices, to satisfactorily controlling prices and to doing a good job of regulation by market mechanism.

II. The Question of Whether the Law of Supply and Demand Plays a Regulatory Role in Socialist Economy

For many years, some comrades have been denying that the law of supply and demand can play a regulatory role in socialist economy. They regard the role of the law of supply and demand in regulating an economy as peculiar to capitalist society only, and hold that the law of supply and demand plays a role in regulating the distribution of social labor only in a capitalist society. As one turns pale at the mention of a tiger, some comrades, on hearing that the law of supply and demand also plays a role in regulating the economy under socialist conditions, think that this will inevitably lead to capitalist restoration.

Actually, this is a total misunderstanding. The law of supply and demand is not peculiar to the capitalist economy, but is common to all commodity economies. It existed even before the existence of the capitalist economy. Even then, people could discern the law of supply and demand through numerous market phenomena. For example, in our country, the "Collected Biographies Concerning the Accumulation of Wealth" in the "Historical Records" mentions how Ji Ran, the commercial theorist in ancient China, analyzed the relationship between supply and demand on one hand and price on the other under the conditions of a simple commodity economy. He said: "We can know whether goods are cheap or expensive by studying whether there is a surplus or shortage." He also said: "When goods continue to become more expensive, they will eventually reach an upper limit and then become cheaper again. When goods continue to become cheaper, they will reach a lower limit and then become more expensive again." In a capitalist society, price changes have become the capitalists' "barometer" for knowing the ratio between supply and demand, and become the basis on which they plan for the readjust production. The basic economic law of capitalism governs the entire economy, but the proportions according to which the means of production and the labor forces are distributed among various sectors are formed under the regulation of the law of supply and demand.

Socialist society is established on the basis of public ownership of the means of production. Therefore, it is possible to comply with the requirements of the basic economic law of socialism and the law of the planned and proportionate development of the national economy and thus to organize the economy, to consciously overcome disequilibrium, to organize a new equilibrium, to establish and maintain a rational ratio between supply and demand, and to strive for price stability. Therefore, changes in market supply, demand and price will not be so drastic and frequent as in capitalist society. Moreover, in socialist society, the fundamental interests of producers of commodities and people engaged in the distribution of commodities coincide, and there is no intense life-and-death competition, marked by each trying to cheat and outwit

the other, which is characteristic of the capitalist society. Therefore, the role of the law of supply and demand is limited to various degrees. However, in socialist society, the production and exchange of commodities and also the market still exist. Therefore, the law of supply and demand will inevitably play a role. It will inevitably regulate circulation, and hence production and the distribution of social labor, through changes in supply, demand and price. This regulatory role manifests itself not only in the urban and rural markets in agricultural products, which people often talk about, but also in the market within the economy governed by the system of socialist public ownership.

The market within the socialist economy has the market that is subject to planning as its core and also includes a market in which the free circulation of commodities is permissible. The role of the law of supply and demand is much more conspicuous in the free-circulation market than in the market that is subject to planning. In the buying and selling among the socialist enterprises that are engaged in production, in the making of purchases from producers by the socialist commercial organizations, in the sale of products by such organizations to the consumer, and in the selling and buying among such organizations, negotiated prices and floating prices rise and fall with changes in the supply of, and demand for, third-category commodities which are not subject to state planning, second-category commodities produced in excess of planned targets, and a small portion of first-category commodities for which free circulation is permitted. The only peculiarity is that in the case of commodities subject to floating prices, prices may vary only within the prescribed limits within which they are permitted to float. Changes in the prices of these commodities in turn help regulate changes in supply and demand. When prices rise, enthusiasm in selling is enhanced; and when prices fall, enthusiasm in buying is promoted. Moreover, the rise and fall of prices play a very important role in regulating the production of those commodities whose free circulation is permitted, in particular the third-category commodities, including agricultural and industrial products, means of livelihood and means of production, has been fluctuating. Invariably, periods of excess supply lasting several years have alternated with roughly equally long periods of inadequate supply. This provides evidence for the role of the law of supply and demand in regulating those commodities which are allowed to be freely circulated within the socialist economy.

The limitation on the law of supply and demand is more severe in the market that is subject to planning. This is particularly so with regard to goods and materials subject to centralized distribution by the state and also commodities subject to state monopoly for purchase and marketing. However, even so, the law of supply and demand has not ceased to work. Consider the regulatory effect on prices. In recent years, the overstocking of some means of production has been a very serious problem. The excessive stock of steel products has reached [words indistinct] building and electrical machinery industries is worth more than 60 billion yuan. Therefore, aside from readjusting our economic structure, striving more vigorously to suit production to needs and making our products marketable, we have been forced to do away with the system of distribution and allocation by the state, to

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permit enterprises engaged in production to market some overstocked means of production and organize exhibitions and trade fairs, to entrust the marketing of products to commodity departments and commercial departments, to organize markets in the means of production, to organize cooperation in handling goods and materials, and so on. Moreover, some prices different from those prescribed by plans are set for commodities handled by means of cooperation, and prices of some commodities purchased or marketed by the state are determined through negotiation. Thus, the prices of these commodities can move downward. Furthermore, goods and materials that have been kept in stock for many years have been subject to open supply and also price cuts. In regard to the means of livelihood, although the overall market situation is marked by supply falling short of demand, the composition of goods in stock is irrational. The prices of many commodities must be lowered because their sales are small and their stocks abundant, they are not marketable, their quality is inferior and their prices are high, or they have deteriorated in quality or have been damaged. In 1978, the system of commercial departments alone handled and cut the prices of a stock of such commodities worth nearly 3 billion yuan, the losses involved amounting to over 500 million yuan. A considerable proportion of such commodities consisted of those subject to planning, especially knitted and cotton textile goods. This situation has still not been completely put to an end. These facts have demonstrated that the law of supply and demand does play a role in the market that is subject to planning. Actually, this role is not necessarily reflected in modifications of prices prescribed by plans. Even when such prices remain fixed, this role will be indirectly reflected in disguised rises or falls in prices. Although the state plans specify the prices of those commodities that are subject to planning, including those subject to state monopoly for purchase and marketing, free prices have always existed, including not only free prices openly quoted in country trade fairs, but also black market prices. The free prices produce an impact on prices stipulated by state plans, so that the state, aside from prescribing the latter, must also adopt some flexible measures. For example, in recent years, in the purchase of agricultural products, there are a number of schemes such as the bonus-rate prices for purchases in excess of planned targets; bonuses in the form of certain quantities of those goods or materials purchased (which actually enable the sellers to earn the difference between the country fair price and the planned price); the fixing of basic quantities purchased so that the producers can retain an appropriately larger quantity of their output in excess of planned targets (thus actually enabling the sellers to earn a higher income by selling their retained products at the country fair prices); purchases with payment in kind (actually enabling the participants of this scheme to earn the difference between the planned price and the country fair price by selling the manufactured products they obtain by offering their own products in exchange); the return of processed sideline products to sellers (returning certain quantities of processed sideline products, such quantities being calculated on the basis of the quantities of agricultural products sold as raw materials, so that the sellers can earn the difference between the planned price and the country fair price); the return of profits to sellers (returning a certain proportion of profits arising from the processing of agricultural products sold as raw materials, the returned profits being calculated on the basis of the quantity of agricultural products sold, so that

the sellers' income can be increased); and so on. Consider another example. The prices of certain commodities subject to planning remain unchanged. However, when supply falls short of demand, the quality of these commodities is lowered, work is done shoddily or inferior materials are used or wrong parts are assembled together in producing them, and so on. When supply exceeds demand, the commodities are disposed of through hire purchase, supplying them at reduced prices, gratuitous delivery of goods, internal price discounts and so on. All this is an indication of the role of the law of supply and demand. Considering the regulation of supply and demand by price, we can see that over many years, because the pricing structure has been irrational, the prices of some commodities subject to planning have stayed above their values, promoting the aimless development of production and restricting demand. Consequently, these commodities have been in excess supply and have been overstocked. The prices of some other commodities have stayed below their values, affecting enthusiasm in producing them and encouraging people to consume them. Consequently, they have been in short supply for many years, some of them having even been out of stock. Moreover, price changes have been unable to help determine changes in the total quantities supplied or demanded, but the latter have been able to help determine the overall level of commodity prices. This is also an important reflection of the role of the law of supply and demand. The socialist centralized market is in a similar situation. In the market, whenever the total quantity supplied is relatively close to the total quantity demanded, commodity prices are rather stable; but when the shortage of supply compared with demand is relatively severe, the overall level of commodity prices tends to rise conspicuously.

Thus, it can be seen that the law of supply and demand objectively exists in the realm of the socialist centralized market and also plays a regulatory role. Just as we understand the point: "Where there are commodities and the production of commodities, the law of value cannot be dispensed with," we should also clearly understand that where there is a market, the law of supply and demand must definitely exist and play a role.

III. Under Socialist Conditions, We Must Exploit the Role of the Law of Supply and Demand

Because the law of supply and demand objectively exists and plays a role in the socialist centralized market, we must respect this objective law when we organize the socialist economy. We must, as far as possible, prevent it from playing its role blindly and thus hampering the development of the socialist economy. We must also fully exploit its role to serve the development of the socialist economy.

First, in formulating national economic plans, we must exploit the role of the law to serve the organization of equilibrium between supply and demand, the organization of the comprehensive equilibrium of the national economy.

The aim of socialist production is to satisfy the ever-growing material and cultural needs of the masses of people. Therefore, production must be compatible with consumption and social production must be organized in the light of consumption.

Under the conditions of a well-developed commodity economy, social reproduction must be achieved through the circulation of commodities, because in such an economy, the relationship between social production and the marketing of products must be reflected in the relationship between market supply and demand. This requires that the market supply of commodities must be compatible with the market demand not only in terms of the total quantities exchanged, but also in terms of composition, so that social reproduction can be achieved. Therefore, in formulating national economic plans, we must respect the law of supply and demand and consciously use it to serve the organization of equilibrium between supply and demand. That is to say, first, we must conscientiously study the conditions and trends of development of market supply and market demand; in particular, we must conscientiously study and analyze the conditions of supply of and demand for those products which are important to the entire national economy, and make scientific forecasts correspondingly. If there is disequilibrium between supply and demand in terms of total quantity or composition, we must pay special attention to readjusting the proportions in production and distribution, and we must also fully make use of the lever of pricing. That is, under the prerequisite of maintaining price stability and a rational price structure, and in the light of the available national financial and material resources, we must appropriately readjust the prices of certain commodities to facilitate the attainment of equilibrium between the supply of and demand for commodities, and also comprehensive equilibrium in the national economy. For example, when the supply of consumer goods falls short of demand to a relatively considerable extent, we should help satisfy the needs generated by any additional purchasing power, and by means of pricing, we should more vigorously plan for promoting the production of those commodities that are in line with the orientation or allocation of the additional purchasing power, especially those commodities which help withdraw a great deal of money from circulation. Moreover, we can appropriately raise the price of some commodities whose supply falls short of demand, and which are not very important to the national economy and the people's livelihood, so that larger sums of money can be withdrawn from circulation.

Second, in implementing our plans, we must exploit the role of the law of supply and demand to regulate production, circulation and consumption.

The socialist economy is a planned one. To ensure its proportionate development, we must organize production and circulation and guide consumption in a planned way. The implementation of plans must rely on market activities, and therefore must be affected by the role of the law of supply and demand. Precisely because of this, we can also let the role of this law serve regulation by planning mechanism. In implementing plans, in the light of feasibility and necessity, we must appropriately raise the prices of those commodities whose supply falls short of demand. (Of course, generally, the prices of those commodities essential to the people's daily life must not be raised even if supply lags behind demand.) Conversely, we must appropriately lower the prices of those commodities whose supply exceeds demand. We can use such upward or downward price adjustments to promote or restrict production, purchases and marketing, to readjust supply and demand, to encourage or limit consumption, and to induce consumers to economize on commodities in short supply and use

substitute goods in the production of which the resources used are amply available. Thus, we can help make supply and demand, and hence production and consumption, become compatible with each other. Aside from readjusting prices in a planned way, we can also flexibly use various economic levers such as profits, taxation, credits and so on so that they can serve the successful implementation of our plans. Actually, this is another form of price adjustment. For example, if we grant tax or profit concessions to producers of certain commodities, or if the banks grant them loans at low interest rates, then with the retail prices remaining unchanged so that the consumers' interests can be safeguarded, the producers are actually being subsidized in some ways other than a price subsidy.

Third, in the reform of our economic systems, we must exploit the role of the law of supply and demand so that we can establish a rational pricing system and fully bring the regulatory role of price as an economic means into play.

The reform of our economic systems is a major change affecting the relationship between the production relations and productive forces as well as the relationship between the superstructure and the economic base. The essence of this reform is to liberate the productive forces and to create the most favorable conditions for the long-term and healthy development of our national economy. In this reform, the commodity-pricing system should be the first to undergo reform, because a rational commodity-pricing system is an absolutely indispensable external condition for the normal functioning of various economic entities. To make the commodity-pricing system rational through reform, we must fully exploit the role of the law of supply and demand. This is because over many years in the past, the control on our commodity-pricing system has been too rigorous, so that this system has been very rigid, lacking the requisite amount of flexibility. The limits of authority have been too narrow for the localities. The enterprises have almost no power to set prices. The range of commodities whose prices are prescribed by the plans is too broad. There has only been one single form of pricing. All these amount to a disregard of the law of supply and demand. In the reform of our systems, we should pay attention to the role of this law and we must fully bring the supplementary role of regulation by market mechanism into play under the guidance of planning. That is, we must appropriately reduce the range of commodities whose prices are determined through planning. Some commodities are not very important to the overall situation of our economy and market, and it is inconvenient for the state to directly specify their prices in its plans. Changes in their prices should be automatically regulated by changes in market supply and demand, so that their production, circulation and consumption can be regulated. Diverse forms of pricing should be adopted. In addition to fixed prices, there can be various other forms of prices for some categories of commodities, such as floating prices, prices set by the enterprises themselves, prices for products produced through cooperation, negotiated prices, and country fair prices which change with changes in supply or demand within the limits of the country fair. These are forms of pricing that embody automatic regulation to various degrees. In determining prices through planning, not only must supply and demand conditions be taken as an important basis in the determination of purchase, transfer, wholesale and retail prices, but the differences between these prices must also be flexibly regulated according to the state of supply and

demand. The expenditure of the necessary social labor time must be taken as the basis for determining basic price differences, whereas in the determination of actual price differences, such differences must be consciously enlarged or reduced in the light of conditions of supply and demand. It is only in this way that regional price differences help encourage or restrict circulation or transport of commodities between localities; seasonal price differences can help promote or restrict the stocking of goods or the purchasing or marketing of goods ahead of time or at a delayed time; price differences due to differences in variety can help promote the increased production of marketable varieties and help curb the production of unmarketable goods, so that most varieties of products offered for sale are marketable and the replacement of old products and old varieties by new ones is quickened; price differences due to differences in quality can help stimulate the production of superior quality products and penalize the production of inferior quality ones; and price differences due to differences in grade can help promote the increased production of products of marketable goods and help curb the production of those of unmarketable grades. Ordinary commodities (except those in seriously short supply) must be subjected to a system of gradual price reduction, so that the removal of old products from stock, the production of new ones and also the turnover of commodities can be speeded up. Some commodities are highly perishable, such as fresh fish, meat, vegetables and fruit and so on. Their prices may be allowed to change in a matter of days or even in the same day, so that they can be quickly sold before they go bad. Thus losses can be prevented. With the commercial departments, a uniform discount rate must not be applied to all commodities without consideration to differences in grade, value, marketability or order of importance, because this will dampen the enthusiasm in operations of wholesale and retail units in the localities where the commodities are sold, and will be disadvantageous to the operations in marketing minor commodities and to the selling of overstocked commodities. To sum up, pricing must be reasonably flexible and the role of the law of supply and demand must be fully exploited. To achieve this, the power to manage commodity prices must be appropriately transferred to the lower levels; the limits of the localities' authority in regard to the pricing of commodities must be extended; and economic organizations and the enterprises must be assigned greater power to determine commodity prices. Moreover, under the auspices of centralized state planning, measures must be formulated to suit local conditions and various problems concerning commodity prices must be tackled promptly and flexibly, so that the attainment of equilibrium between supply and demand can be promoted, production can further develop, circulation can be enlivened and consumption can be properly guided.

Lastly, to stabilize commodity prices, the role of the law of supply and demand must be exploited.

Although the law of supply and demand states that commodity prices change with changes in supply and demand, the exploitation of the law is not bound to be in contradiction to the stabilization of commodity prices. In any case, the overall level of commodity prices can be stabilized only on the basis of a proper proportion of supply to demand. To achieve such stability, we must not rigidly stick to the idea that changes in the prices of individual commodities are in

contradiction to price stability. On the contrary, so long as commodity prices are kept from fluctuating conspicuously, certain flexible changes in commodity prices which can promote the attainment of equilibrium between market supply and demand are desirable.

To sum up, the role of the law of supply and demand objectively exists in a socialist society. If people know this and consciously exploit it, they will achieve results favorable to the development of the socialist economy. If people deny this objective law or even act against it, they will inevitably be penalized in real life.

IV. Our Own Understanding on Several Popular Views

Over many years, people have held many different views on the law of supply and demand as it appears under socialist conditions. This is natural. Here we will present our own preliminary views on some of these views.

1. Will regulation by means of the law of supply and demand inevitably lead to the development of capitalism?

Under capitalist conditions, the distribution of social labor (including the means of production and the labor forces) among various sectors is accomplished amid competition and under the aimless regulator actions of the law of value and the law of supply and demand. Price becomes the baton which directs socioeconomic activities. Under socialist conditions, the situation is different. Social labor is distributed among various sectors through regulation by planning mechanism and according to the requirements of the law of the planned proportionate development of the national economy. However, this does not mean that it is impossible and unnecessary for the state to undertake the requisite regulation of social labor through market activities. This is because by means of regulation by market mechanism, we can only proceed from society to prescribe the distribution of total social labor among various sectors, thus arriving at various ratios relevant to economic development; but commodities are numerous and our plans cannot embrace everything. Therefore, we need the coordination of regulation by market mechanism. That is, market prices, like levers, provide guidance for producers of commodities and other people involved in various categories of operations, so that they will divert the means of production and labor forces under their control from the production of commodities whose supply exceeds demand to those commodities whose supply falls short of demand. This will be conducive to the proportionate development of the economy. Thus, we must naturally exploit the regulatory role of the law of value and that of the law of supply and demand. Because these regulatory roles take place under the socialist and not capitalist conditions, because they do not occur spontaneously but are exploited consciously, and because they are not concerned with the overall distribution of the total social labor but are concerned with exerting regulatory effects on various enterprises, they will not give rise to capitalism, but on the contrary, they will be conducive to the development of the socialist economy. The law of supply and demand, like the law of value, governs the commodity economy and is not peculiar to the capitalist economy. Just as we have rehabilitated the reputation of the law of value, we should likewise eliminate the misunderstanding about the law of supply and demand.

2. Is it true that the law of supply and demand can only play a role aimlessly and spontaneously and cannot be consciously applied?

A popular view is that a change in supply or demand and a change in price can affect each other at any time, and therefore, under socialist conditions, it is very difficult to talk about exploiting the role of the law of supply and demand. We hold that all objective laws are independent of man's will, and the law of supply and demand is no exception. Whether people know and apply it or not, it will play its role. However, objective laws can be understood and applied. There is no law that is doomed to play an aimless role only. People cannot apply a law, so that it will play an aimless role, only when they do not understand it. We can consider the regulatory role of the law of supply and demand as the basis for regulation by market mechanism precisely because this law can be understood and applied (though changes in supply and demand are complicated). Of course, conscious application is not tantamount to saying that all regulation must be conscious. Sometimes, within the limits of what we can exercise control over, it is harmless to let the objective role of the law of supply and demand bring about automatic regulation. For example, when setting planned prices, we may consciously exploit the role of this law to effect regulation. However, in adopting the country fair prices, the negotiated prices, the prices for products produced through cooperation and the floating prices, we can let the law play the role of automatic regulation. To exploit the role of the law in this way is not tantamount to some blind action.

3. Is the regulatory role of the law of supply and demand confined to the market in consumer goods without [word indistinct] the market in the means of production?

In the past, because there was an erroneous idea that only consumer goods are commodities and the means of production are not, some comrades drew the conclusion that objective laws governing the commodity economy, including the law of supply and demand, do not play a role in regulating the circulation of the means of production. Now that many people have resolved the question of whether the means of production are commodities under socialist conditions, the question of whether the law of supply and demand plays a role in regulating the market in the means of production can be easily resolved.

4. In the reform of our pricing structure, should we insist that price must be consistent with value, or should we allow price to deviate from value?

A popular view holds that for many years, our pricing structure has been gravely irrational. The prices of many commodities have deviated too substantially from their values. Therefore, in the reform of our pricing structure, we must make price compatible with value. Only thus can the objective requirement of the law of value be reflected. We hold that if this view means that the pricing structure, or the relationship of relative prices, embodies taking the values of various categories of commodities as the basis on which commodity prices are formed, then this view is correct. We began to stabilize commodity prices in 1950. At that time our commodity prices were not free from the relative price relationship that had been formed in the semifeudal, semicolonial old China. However, the pricing structure of old China was formed under the condition of

imperialism plundering raw materials at low prices and selling manufactured goods at high prices. Subsequently, despite many rounds of investigation [as published], the shortage of supply relative to demand continued to plague the market for a long time. Thus, to stabilize prices became the primary task in our work in connection with commodity prices. Moreover, several setbacks in economic development caused disequilibrium in fiscal revenue and expenditure, so that price readjustments were limited to some patchwork efforts and a relatively thorough reform was impossible. That is to say, the majority of price readjustments in the past were basically readjustments of the prices of some individual commodities under the condition that there was no major change. Therefore, many aspects of the present pricing structure are still irrational and violate the requirements of the law of value. Of course, to eliminate such irrationality through reforming the pricing structure, we must take value as the basis to set prices for various categories of commodities, and thus to establish a rational relative price relationship. However, we must definitely not erroneously consider a rational pricing structure as a relative price relationship formed by a set of prices which must be consistent with values, because actually this implies denying the fact that it is both possible and necessary for price to deviate from value, and thus implies denying the role of the law of supply and demand in regulating prices. In the foregoing analysis, we have said that regulation by market mechanism not only involves the exploitation of the regulatory role of the law of value, but also involves the exploitation of that of the law of supply and demand. Therefore, rational prices must not only be based on value, but must also embody a full consideration of the relationship between supply and demand and must take changes in supply and demand as an important basis. Therefore, when we readjust the pricing structure, we must permit prices to deviate from values to various degrees in the light of the order of importance of each commodity and other relevant specific conditions. That is, we can raise the prices of certain commodities whose supply lags behind demand to a level above their values, and lower the prices of certain commodities whose supply exceeds demand to a level below their values. When supply and demand become consistent, we can readjust prices to bring them closer to values. Only thus can the requirements of the law of supply and demand be satisfied and can the power of pricing policies be brought into play. Such appropriate rises and falls in price in response to changes in supply and demand are not in contradiction to the necessity for prices to have values as the basis, because rises and falls in price are still centered round value as the core. Such appropriate rises and falls in price in response to changes in supply and demand are quite different from the past phenomenon of prices staying above or below values for long periods of time. The latter phenomenon reflected the violation of the requirements of both the law of value and the law of supply and demand, because it meant that price deviated from value for a long time; that in addition, price continued to deviate from value even when supply and demand became consistent; and that there was even an irrational situation of price continuing to stay below value when supply fell short of demand, and continuing to stay above value when supply exceeded demand. Therefore, a rational pricing structure should take both the law of value and the law of supply and demand as its basis.

We must not apply only one of these two laws. We must not one-sidedly require price and value to be always consistent. We must not one-sidedly require price to deviate from value without approaching it. We also must not distort the meaning of the idea that price must be readjusted at appropriate times according to changes in supply and demand by saying that price can remain fixed for a long time independently of changes in supply and demand, staying for a long time above or below value. Only a pricing structure that is established on the basis of the requirements of these two economic laws can be rational and can promote the rationalization of the production structure. Conversely, if we violate the requirements of these two economic laws and the pricing structure is irrational, then it will be difficult for the production structure to become rational.

CSO: 4006/87

NATIONAL POLICY AND ISSUES

ECONOMIC RESPONSIBILITY SYSTEM DISCUSSED

HK020745 Beijing JINGJI QUANLI [ECONOMIC MANAGEMENT] in Chinese No 9, 15 Sep 51 pp 10-11

[Article by Feng Yi [2800 1355]: "Bravo to the Economic Responsibility System Practiced by Industrial, Transport, Financial and Trading Enterprises!"-- slantlines denote boldface type]

[Text] At present, industrial, transport, financial and trading enterprises throughout the country are actively enforcing the economic responsibility system. In the past few months since April, the situation has been developed even faster and the effects have been better than expected. Practice has shown that to establish and practice the economic responsibility system in industrial, transport, financial and trading enterprises is something developed among the masses, which is consistent with the present productive and administrative levels in our country and accords with the general trend and the people's will.

The enforcement of the economic responsibility system in industrial, transport, financial and trading enterprises is definitely not fortuitous. Over the past years, various responsibility systems have been practiced by a few enterprises and have made certain contributions to strengthening enterprise administration. Because they were directly linked to the material benefits of enterprises and staff and workers themselves, those systems failed to produce greater effects, and some of them even became mere formalities. In the last 2 years, in implementing reforms of economic systems, we have expanded the self-determination power of enterprises; under the direction of the state plan, we have strived to give full play to the function of market conditions and thereby give the enterprises some economic motive force. Inspired by the success achieved in practicing the system of linking remuneration to production in agricultural production and after having summed up the historical experiences of the practices of system reforms in our country, the economic responsibility system practiced by industrial, transport, financial and trading enterprises was developed. This system has emerged as the new situation required.

The economic responsibility system practiced by industrial, transport, financial and trading enterprises aims mainly at overcoming two kinds of egalitarianism: that existing among enterprises, and the other inside enterprises. Therefore, in order to make the economic responsibility systems function in these two

aspects, we must handle well the economic relations between the state and enterprises and expand the enterprises' system of economic responsibility to the state; in other words, we must "assign" to enterprises the tasks which are designated to them according to the state plan and the portion of profits they should hand over to the state, to ensure the necessary conditions for accomplishing the tasks, and therefore further resolve the problem of binding the enterprises too tightly and that of "eating out of a big pot." On the other hand, we must also handle well the distribution relations inside each enterprise, and broaden the internal economic responsibility system; in other words, the tasks assigned to each enterprise and the expected economic results should be reassigned to every individual in the enterprise, according to the responsibilities of different levels, units and posts. In the meantime, the income of staff and workers should be directly linked to the labor achievements. The enterprises' system of economic responsibility to the state is the prerequisite while that inside each enterprise is the basis for economic work; they complement each other and form an organic entity. Without the economic responsibility which enterprises undertake for the state, there will be no basis for the economic responsibility system inside every enterprise. On the reverse side, the former cannot be carried out without the latter.

Of course, due to the differences in the nature and characteristics of production, subjective and objective conditions and so on between various enterprises, the forms of the economic responsibility systems for enterprises and inside enterprises should be varied. But no matter what concrete form they take, we must always pay attention to the following problems so real effects can be achieved.

1. /Properly handle the economic interests of the state, enterprises and staff and workers./ More revenue for the state means more profits retained for enterprises and more income for individuals; better economic effects is the key link to ensure more revenue for the state and more income for individuals. In coping with this problem, the practice of paying attention to just one aspect must be avoided and fraudulent practices must not be allowed. The enforcement of the system of taking full responsibility for profits and losses in enterprises must be integrated with the setting of norms such as productivity, variety, quality, consumption, safe production and so on. The enterprises must ensure that the state plan can be comprehensively completed. Required to be responsible to consumers, they should pay more attention to reaching the target of socialist production. In practicing the economic responsibility system inside enterprises, we must also aim at the overall completion of the state plan in the whole enterprise and the realization of increased production and revenue.

2. /Well-defined responsibilities, strict assessment and rewards and penalties in forms of economic benefits must be integrated so as to make the various responsibility systems in all sections of an enterprise compatible and form a complete set of responsibility systems./ A sound set of responsibility systems is the important guarantee for an enterprise to carry on regular productive activities and realize the expected economic results. The relations between different links and different jobs must be cooperative relations of labor division inside an entity. Therefore, the leadership responsibility system for heads of plants (managers), the responsibility system practiced in every workshop (office), team and group, and finally the job responsibility system for every

staff member or worker must all center around the completion of the overall task of enterprises, and thereby be provided with well-defined requirements. All factors such as power, responsibility, effect and profit must be comprehensively and organically integrated, in which the effect is the key factor, with the well-defined responsibilities as the basis. Here the effect not only means the working results of an individual but also in particular the comprehensive and actual economic results of an enterprise. In practicing the economic responsibility system, we must expand various basic functions of enterprise administration. At present, we must pay special attention to those basic functions such as administration and so on, so as to build up the economic responsibility system on the basis of scientific administrative works.

3. /Ideological and political works must be strengthened./ Under the economic responsibility system, the economic results achieved by an enterprise are directly linked to the material benefits of the enterprise and its staff and workers. This is an efficient way to overcome egalitarianism. Therefore, in the enforcement of the system, we must conscientiously carry out rewards and punishments and keep our promises to the people. However, the guarantee of material benefits can never substitute for political and ideological education. On the contrary, in practicing the economic responsibility system, we are bound to come across various ideological and practical problems. For this reason, it is necessary to strengthen ideological and political works, thoroughly arouse the initiative of the vast numbers of staff and workers as the masters of the cause through well-oriented, convincing, thoroughgoing and painstaking ideological work. The sense of political responsibility, combined with economic responsibilities, is the solid guarantee for kindling the enthusiasm of enterprises and their staff and workers. We must have a comprehensive understanding of this matter while carrying out the economic responsibility system.

Today, although the economic responsibility system has just been started in industrial, transport, financial and trading enterprises and a lot of problems still need to be discussed, we have been able to see that the system is a good form for further carrying out the principle of distribution according to work, a step toward the rectification of enterprises, and an important enrichment to the reform of economic administrative system. Following its gradual perfecting, the system will surely show its vitality daily.

ECONOMIC PLANNING

BRIEFS

GANSU COMMERCIAL MANAGEMENT FORUM--Gansu Province held a forum on managerial responsibility systems of commercial enterprises from 6 to 12 October. The forum reported that as of mid-September, 1,275 retail sale departments, restaurants and service centers in the province, 31.9 percent of the total, had instituted managerial responsibility systems. The forum urged that profit quotas to commercial enterprises be scientifically and reasonably fixed so that state revenue will not decrease and enterprises' interests are protected; that maximum amounts of bonuses and workers' wages be fixed; that the workers' floating wage not be given too great a portion and that regulations for labor protection and other benefits not be easily changed. [SK250359 Lanzhou Gansu Provincial Service in Mandarin 1125 GMT 19 Oct 81 SK]

CSO: 4006/87

FINANCE AND BANKING

LOANS HELD DIVERSIFY BEIJING'S RURAL ECONOMY

OW051345 Beijing XINHUA in English 0256 GMT 5 Nov 81

[Text] Beijing, November 5 (XINHUA)--Bank and credit cooperative loans amounting to 15.6 million yuan have been taken out in the first nine months this year especially for diversifying the rural economy in the Beijing area, according to the municipal people's bank authorities.

Around 14 million yuan has been loaned to 2,800 production teams in the area to diversify the rural economy, and another 1.6 million yuan has gone to individual peasant families to develop household sideline production. Loans of this kind started to be made in May last year to promote forestry, fishery, animal husbandry, collective sideline production and household sideline production in a bid to increase the income of the peasants as well as of the collective units and to improve the market supply.

Production resulting from such loans has provided 50,000 rural people with jobs so far this year. According to incomplete statistics, some of the money has been used for 250,000 hens for egg laying as well as a large number of pigs, rabbits, ducks and bees.

From January to September this year, the loans taken out and repaid in the Beijing area by the rural communes and their subdivisions were 40 percent more and by individuals 53 percent more than in the same period of 1980. Bank deposits in Beijing's rural areas also rose during the period.

CS0: 4020/24

FINANCE AND BANKING

BRIEFS

FINANCE SOCIETY MEETING--The 1981 annual meeting of the China Finance Society and the fifth national forum of financial theories ended in Nanjing on 1 November. Chen Rulong, vice minister of finance and vice president of the China Finance Society, made the closing speech. The meeting discussed questions on how to make, accumulate and use money. More than 120 academic papers were exchanged at the meeting. [Nanjing Jiangsu Provincial Service in Mandarin 1100 GMT 1 Nov 81 OW]

CSO: 4006/84

MINERAL RESOURCES

BRIEFS

JILIN PLASTER DEPOSIT--An investigative report submitted by the No 4 geological survey team on prospecting plaster deposits in Tonghua County recently was approved by the Jilin Provincial Mine Reserve Committee. This large plaster deposit was discovered in 1977. It has a confirmed reserve of 20 million tons. The deposit is easy to extract, and transport facilities are available. It will provide indispensable raw materials for developing the province's construction materials and light industries. [SK140402 Changchun Jilin Provincial Service in Mandarin 2200 GMT 13 Oct 81 SK]

CSO: 4006/84

INDUSTRY

SHANGHAI SENDS MORE GOODS TO COUNTRYSIDE

OWO21215 Beijing XINHUA in English 1220 GMT 2 Nov 81

[Text] Shanghai, 2 Nov (XINHUA)--Shanghai, China's leading industrial and commercial city, will provide China's rural markets with five percent more consumer goods this year than last, according to an official of the municipal commercial department.

From July through September this year, the city shipped more than 1,200 million yuan worth of daily necessities, cotton knitwear and household electric appliances to different parts of the country, 11.3 percent more than during the same period in 1980. The volume of the cotton knitwear shipped out was up 17.5 percent, the official said.

Shanghai shipped out eight percent more sewing machines in the July-September period this year, 18 percent more rubber boots, 17 percent more aluminium pots and pans and 150 percent five-pound thermos bottles, compared with the same period of last year. Television sets were up nearly 60 percent and radio sets up 32 percent.

China expects a good harvest this year, which means the purchasing power of the peasants will continue to rise.

Figures from Shanghai's commercial department show that, from January through September this year, the volume of retail sales for consumer goods in the city's suburbs, which have a population of 5.45 million, rose 11.9 percent over the same 1980 period, while in the urban districts with a population of more than six million sales were up 7.2 percent. Rural market sales of wrist watches, TV sets, woolen piece goods and bedsheets increased between 20 percent and 100 percent over the 1980 corresponding period.

New designs account for one third of the 2,000 kinds of cotton knitwear shipped to the country's rural areas. Shipments of knitting wool, cotton sweaters and trousers and synthetic fabrics went up from 40 to 100 percent in the July-September period this year.

CSO: 4020/27

INDUSTRY

XINING MAYOR VIEWS INDUSTRIAL OUTPUT FIGURES

SK050850 Xining Qinghai Provincial Service in Mandarin 2330 GMT 4 Nov 81

[Excerpts] (An Diming), Xining municipal mayor and deputy to the provincial people's congress, said: Since the last half of 1981, the industrial and communications fronts in Xining Municipality has scored remarkable economic achievements following the implementation of responsibility systems. By the end of September, Xining Municipality had fulfilled 74 percent of the annual industrial output value plan. The average monthly profits gained in July, August and September increased 180 percent over that of the January-June period.

(An Diming) said: There are three good points in implementing the economic responsibility system: 1. We can achieve the goal of increasing production and income. 2. This system helps promote enterprise consolidation and improve product quality. 3. It ensures the state will collect more revenue, enterprises to share more profits and individuals have more income.

(An Diming) said: The industrial output value plan of Xining Municipality in 1981 is 260 million yuan. Thanks to the implementation of the economic responsibility system, the industrial output of Xining Municipality has been increasing in the last half of this year. We are summing up our experience, studying the new situation and solving new problems. We are determined to overfulfill this year's industrial and communications plan.

END: 1426/87

INDUSTRY

BRIEFS

XINJIANG INDUSTRIAL, COMMUNICATIONS PRODUCTION--On 30 September, model workers on the industrial, communications and capital construction fronts in Xinjiang region, who had attended the forum held by the regional federation of trade unions happily talked about the excellent situation of industrial and communications production. They declared that they would strive to increase production from October to December. Approximately 40 people attended. Regional party committee second secretary Gu Jingsheng attended and spoke. Others who attended included Huang Luobin, regional party committee secretary, and Yang Yiqing, regional party congress Standing Committee vice chairman. [HK130105 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 1 Oct 81 HK]

CSO: 4006/87

CONSTRUCTION

BRIEFS

SHANDONG AIR-RAID SHELTERS--Qingdao, 30 Oct (XINHUA)--The coastal city of Qingdao in Shandong Province, in an effort to use thousands of square meters of idle space, has recently converted unused air-raid shelters to public utilities. A total of 63,000 square meters of space thus made available have been converted to warehouses, hotels, cold storage, restaurants and meeting rooms. The city's commercial department has converted enough room for a cold storage with a capacity of 10,000 tons. In July, the Qingdao No 3 Knitwear Mill used 8,000 square meters for storage of imported nylon. Use of the shelter space will mean a financial savings of 100,000 yuan each year which the mill used to spend on rent. Two hotels and four restaurants have opened in air-raid shelters since 1980. One hotel, the Longshan, has 55 rooms, 200 beds and a dining hall with a capacity of 300. [Text] [OW311131 Beijing XINHUA in English 0717 GMT 30 Oct 81 OW]

GUANGZHOU HOUSING PROJECT--Guangzhou, 24 Oct (XINHUA)--Construction began this week of a housing project, called New Jiangwan Village, on a land fill in the Pearl River in Guangzhou, capital of Guangdong Province. The Pearl River Foreign Investment Construction Company of China is building the project in cooperation with American United Properties, Ltd of Hong Kong. New Jiangwan Village will cover an area of 27,000 square meters. The first phase included five buildings of 20 or 25 stories. The housing project, which was designed by architects from Guangzhou and Beijing will eventually have buildings of different heights and designs interspaced with parks. All the buildings will be on raised pilings so that pedestrians can walk through the arcades and see the Pearl River. [Text] [OW261211 Beijing XINHUA in English 1224 GMT 24 Oct 81 OW]

CSO: 4020/27

LABOR AND WAGES

BRIEFS

TEXTILE WORKERS MEETING--Zhengzhou, 25 Oct (XINHUA)--A national meeting of young textile workers to exchange experiences in operations closed in Zhengzhou, Henan, on 25 October, after 10 days in session. In a speech Hao Jianxiu, minister of textile industry, called for efforts to launch mass activities to study, exchange and master basic operational skills in order to further develop the textile industry. She said: The textile industry's average total output value in 1979 and 1980 increased 18 percent each year. Taxes paid to the state and profits made by the textile industry in these 2 years rose an average of 19.8 percent each year. Foreign exchange earned by the textile industry in these 2 years increased an average 22 percent each year. [Beijing XINHUA Domestic Service in Chinese 1641 GMT 25 Oct 81 OW]

GUANGZHOU YOUTH INDIVIDUAL UNDERTAKINGS--In Guangzhou Municipality, individual industrial and commercial undertakings engaged in by youths awaiting jobs increased from 5 percent in 1979 to 46 percent now of the total number, and has reached the figure of 6,700 persons, the greatest in number among the eight biggest municipalities in the country. Their businesses include handicrafts, barbers, tailors, the repair service trades, and hawkers of food and small commodities. They enliven the market and facilitate the people's livelihood. The basic reason for the increase in their number lies in the implementation of the party's policy of giving them political and economic equality and rendering help to them. The departments concerned supply the raw materials they need at wholesale prices and help them to solve the problems of business sites, funds and technology. Measures have been adopted to encourage youths awaiting jobs to go in for individual businesses. They include simplification of the procedures of application for business licenses, revocation of unreasonable economic burdens such as street charges and charcoal charges and the adoption of regulations that do not restrict their turnover and economic income as long as they are not illegal. Now the average monthly turnover of those engaged in commerce is 300 to 400 yuan and their average monthly income is 80 to 90 yuan per capita. The average monthly income of those engaged in roasted and cured foods that are more profitable is about 200 yuan per capita. [HK160801 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 13 Oct 81 HK]

TIANJIN PROFIT-INCREASING CAMPAIGN--The Tianjin Municipal Trade Union Council on 27 October held a rally to report on the achievements in the campaign in which staff members and workers are encouraged to create more profits for the state. Labor models, workers, engineering and technical personnel, managerial cadres and some collectives who distinguished themselves in this campaign were commended at the rally. The campaign was initiated first at the municipal metallurgical industrial bureau. Through tapping potential, each of its some 20,000 workers created 1,700 yuan more profits for the bureau. By the end of September, the bureau had earned 190 million yuan of profits, 82 percent of its annual target. During the January-September period, each worker at the municipal textile bureau created 340 yuan more in profits for the bureau. The municipal communications bureau also launched the campaign in July. By the end of September, this bureau had fulfilled 99.84 percent of its annual profit quota. [SK290924 Tianjin City Service in Mandarin 0030 GMT 26 Oct 81 SK]

CSO: 4006/87

TRANSPORTATION

BRIEFS

HUBEI RAILWAY SERVICES--Beginning 0000 hours on 11 October, like all other railway bureaus throughout the PRC, the Wuhan Railway Bureau will bring into effect the new schedule for the movements of trains. Hubei will properly readjust passenger trains and add passenger trains to railway services. In accordance with the new schedule, the speed of the trains of the Wuhan Railway Bureau will be increased. Numbers 137 and 138 direct passenger express trains from Wuchang to Beijing will be changed to Nos 37 and 38 special express trains and the traveling time will be 2 hours and 10 minutes shorter than before. Numbers 107 and 108 express trains from Wuchang to Chengdu via Chongqing will be changed to Nos 117 and 118 express trains which will run from Wuchang to Chongqing in future. The Wuhan Railway Bureau will add a slow train between Wuchang and Hengyang and a direct express train between Beijing and Chongqing via Luoyang, Xiangfan and Jiayu counties to the schedule. The express trains between Beijing and Nanchang via Wuchang and between Beijing and Guiyang via Wuchang which now run every other day will run every day in future. [HK260749 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 7 Oct 81 HK]

XINJIANG RAILWAY SERVICES--Beginning 0000 hours on 11 October, a new schedule for the movements of passenger trains throughout the PRC will become effective. From this date, No 54 direct passenger express train from Urumqi to Shanghai and No 70 direct passenger express train from Urumqi to Beijing will be changed to special express trains. After the change, the traveling time of No 54 train will be 78 hours and 4 minutes, 4 hours and 34 minutes shorter than before the change. The number of stops at stations will be reduced from 72 to 49. The traveling time of No 70 train will be 72 hours and 36 minutes, 4 hours and 53 minutes shorter than before the change. The number of stops at stations will be reduced from 77 to 49. After the new schedule becomes effective, No 144 direct passenger express train from Urumqi to Xian will be added. Number 72 train from Urumqi to Zhengzhou will be changed to No 172 direct passenger express train. Number 144 train from Urumqi to Lanzhou will be changed to No 244 direct passenger express train, which will run every 2 days. Number 394 train from Urumqi to Yumen will be changed to No 494 direct passenger train. The time of leaving Urumqi of the above-mentioned trains will be: No 54 train at 1650 hours; No 70 train at 2133 hours; No 172 train at 0925 hours; No 144 train at 1923 hours, No 244 train at 1500 hours, and No 494 train at 2209 hours [local times]. [HK200803 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 8 Oct 81 HK]

XINJIANG RAILWAY LINE--The entire South Xinjiang Railway Line opened to traffic on 20 October. The railway line, which starts from Turpan in the east and ends at Korla in the west, is over 470 km in length. Construction of this railway started in 1974. The PLA Railway Engineer Corps Unit which took part in this project dug 29 tunnels with a total length of 33 km and built 492 bridges. [OW231115 Beijing Domestic Service in Mandarin 2230 GMT 21 Oct 81 OW]

NORTHEAST CHINA TRANSPORTATION--On 1 October an integrated highway transport service was established in Shenyang, Liaoning Province; Changchun, Jilin Province; and Harbin, Heilongjiang Province. Highway transport stations have been established in the three municipalities to handle municipal transportation. The dispatch of vehicles and accounting will be made in a unified way to improve efficiency. [SK132241 Shenyang Liaoning Provincial Service in Mandarin 2200 GMT 12 Oct 81 SK]

HEILONGJIANG RIVER TRANSPORT VOLUMES--This year's navigation period for the Heilong Jiang in Heilongjiang Province ended on 20 October. Thanks to responsibility systems, Heilong Jiang transport volumes for this year reached a record high. Its passenger transport volume was 77,000 people, 54 percent higher than as planned and 21 percent higher than in 1980. Its cargo transport volume was 66,000 tons, 10 percent higher than as planned and 50 percent higher than in 1980. [SK250226 Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 21 Oct 81 SK]

NEW GUANGXI RAILWAY--A new railway line between Laibin and Liangjiang has been built recently and opened to traffic. The examination shows that the quality of the railway line is up to standard. The line is 11.3 km. This line was built by the Liuzhou Railway Bureau and No 2 construction bureau of the Ministry of Railways. [HK260749 Nanning Guangxi Regional Service in Mandarin 1100 GMT 8 Oct 81 HK]

CSO: 4006/87

GENERAL

IMPORTANCE OF IMPORTING MANAGEMENT METHODS STRESSED

Tianjin KEXUEXUE [SCIENCE] in Chinese No 4, 20 Aug 81 pp 40-43

[Article by Guo Xinchang [6753 0207 2490] and Yang Haitian [2799 3189 3944] of the Institute of Economic Research at the Tianjin Academy of Finance and Economics entitled: "Not Only Import Equipment But Also Import Management." The article was edited by Guan Xipu [7070 6007 2528] and He Zhongxiu [0149 6988 4423].]

[Text] Since 1972, we have imported whole plant equipment successively from the United States, Japan and Western Europe. This has an important significance for the level of technology and equipment in our industrial sectors. However, along with these successive investments in equipment came an extremely obvious contradiction. The contradiction is that our management methods are unsuitable for this modern equipment.

Comparison of Economic Results

First, we made the following comparison of the economic results of certain imported equipment with various domestically produced equipment. The generating equipment for the power plants at Tangshan's Douhe, Tianjin's Dagang, and Inner Mongolia's Yuanbaoshan was all imported. Except for a slight difference in the quality of the equipment for Yuanbaoshan, no technical problems occurred in transit for the Douhe and Dagang equipment (sic). The economic results of these facilities was much better than that of domestically produced facilities. The power supply coal consumption for the period January through August 1980 at thermal power plants using domestically produced equipment averaged 471 grams per kilowatt-hour. The aforementioned three power plants used 344, 350 and 367 grams per kilowatt-hour, respectively, an average of 353.7 grams per kilowatt-hour. The plant consumption rate was, in general, over 10 percent for plants with domestically produced equipment while the figure for the above 3 facilities was 6.27, 8.33, and 8.81 percent, respectively. The results for 13 large chemical fertilizer installations imported during the same period, all of which were in operation by September 1980, were all fairly good. For example, the earliest of these in operation, the Siquan plant currently consumes 40 kilowatt-hours per ton of ammonia while domestic medium-sized chemical fertilizer plants consume at least 1500 kilowatt-hours per ton. Based on 1 year's production, this one project can save more than 440 million kilowatt-hours of power. This is equal to the annual production capacity of a 50,000 kilowatt thermal power plant.

If the operating results are compared with similar foreign equipment, that is a different situation. The coal consumption for these three plants for January-August 1980 is still higher than that of the Soviet Union (1979-330 grams), Italy (1976-336 grams), and Japan (1976-337 grams). The plant power consumption rate for Douhe alone, our lowest, is still higher than that for England (1977-5.9 percent), the Soviet Union (1975-5.9 percent), Japan (1977-4.7 percent), France (1976-5.0 percent), and Italy (1976-5.8 percent). The various economic and technical targets for large chemical fertilizer plants do not completely achieve design requirements either. The power consumption per ton of ammonia was designed to be 1.97 kilowatt-hours for the U.S.-Netherlands model and we average 4.56 kilowatt-hours; the Japanese model was designed for 34 kilowatt-hours and we require 41.57 kilowatt-hours. As for long term operations, similar synthetic ammonia plants abroad run 468 days in the United States, over 300 days in India, while our longest run is 266 days.

From this it can be seen that although the results produced by the imported technology and equipment are much better than those for domestic equipment, a comparison of the operating results of our equipment with similar equipment abroad or the design requirements leaves our plants somewhat deficient. That is to say, the full potential of the equipment has not been achieved.

The Historical Problem of Imports

Why is it that the same equipment which shows good results abroad is not that effective once imported? The reason is naturally multifaceted, but the most basic reason is that our current management methods, management systems, and management structures are not adaptable to the demands of this modern equipment.

Production organization management is both the embodiment of a specific production relationship and the objective demand of a certain time in the development of productive forces. Along with scientific and technical advances, and the renewal of equipment, a corresponding reform in management methods must be carried out. Otherwise, further advanced equipment cannot be brought into full play. This point was proven abroad long ago and 30 years of experiences domestically are also sufficient to illustrate the point.

Our Ministry of Chemical Industries has imported the most equipment, the majority of which was whole plants. In general, a look at the effects and an analysis and comparison of equipment already on-line shows the 1950's as best, the 1960's as worst and the 1970's as relatively good. Why is this? It is common knowledge that during the 1950's our equipment was imported primarily from the Soviet Union. At that time, we had no experience managing socialist enterprises. We mainly emphasized learning from the Soviets. At the same time we imported technology and equipment. We also gave attention to importing the Soviet management methods and systems and strengthening every rule and regulation to allow this equipment to exert its fullest effect on the development of our chemical industry. In the 1960's, we imported technology and equipment primarily from Western Europe. Although a comparison with the 1950's shows the technological level to be higher, our management methods did not change, especially after the 1960's. Years of catastrophe began. To talk of importing enterprise management

during the despotic rule of the extreme left was to talk of a leopard changing its spots, which led to poor economic results. In the 1980's, technology and equipment was imported primarily from the United States, Japan and Western Europe. It was naturally even more advanced, however, the management methods were still the Soviet methods of the fifties. It was only after the smashing of the gang of four that some advanced foreign management methods were imported along with the equipment. Some units which imported equipment also began giving attention to importing advanced management experiences. Although it hasn't been long since this was begun and the things learned are also one-sided, the results achieved are especially obvious. For instance, after the 13 chemical fertilizer plants came on line, a tendency for improved operations, increased production, decreased consumption and lower yearly costs was noted.

The facts fully explain that contemporary scientific technology and contemporary scientific management are the two wheels which drive contemporary economic development. If we emphasize importing advanced foreign technology and equipment while we do not import the corresponding management methods and we attempt to use the advanced technology or equipment by accommodating the traditional backwards management methods, this is the same as putting two dissimilar tires on a cart; it is very difficult for it to roll smoothly and quickly.

Manifestations of Backwards Management

The following are the four most obvious examples.

1. Workers and Staff Too Numerous

The power, chemical fertilizer, and chemical fiber plants which we imported during the seventies generally all have a single set of large-scale characteristics such as a high degree of self-control and strong continuity. An important indicator of the use of these advanced installations is a high rate of labor productivity and a small work force. For example, in the past 30 years, following the critical increase in energy resource requirements, the public power industries of many nations were swiftly expanded but the number of personnel in the work force did not increase greatly and in some cases there were even decreases in work force. Since 1951, privately managed public power companies in the United States have had only a 20 percent increase in operations and maintenance personnel. The British power industry work force has on the other hand decreased by 1/4 in 10 years. Over the past 30 years in the Soviet Union, power production and installed capacity has increased by more than 12 times while the work force has increased only by about 4 times. Looking at the power plants alone, the number of personnel used abroad is still very few. For instance, the world's largest fossil fuel burning power plant, the Kagoshima power plant in Japan, has an installed capacity of 4.4 million kilowatts with only 350 people in the work force.

The most important reason why industrialized nations are able to obtain such high labor productivity in power, chemical fertilizer and other industries is because they follow the principles of socially run plants, realizing a highly developed specialized cooperation. While our nation, on the contrary, follows the traditional method of a plant run society where specialized cooperation does not

develop, even those large-scale enterprises for which modernized complete plants were imported are no exception. Therefore, the establishment of an imported complete plant results in the appearance of a "small city," which has everything it needs. In addition to those departments directly connected to production, it has a hospital, post office, stores, capital construction, motorpool, farm, child-care center, kindergarten, primary and middle schools, technical secondary schools, a hostel, and even police and fire stations. For example, in one of our power plants equipped with imported modern equipment, the work force is nearly 1,112 personnel, of which the operations personnel number 193, 17 percent of the total work force. The number of personnel in the maintenance, heat and chemistry shops is 532, 48 percent of the whole. Administration, funding and farming take 387 people, which is 35 percent of the total.

2. Non-professional Leadership and Multi-level Directions

The businesses with imported modern installations are both economic organizations of socialized production and ones which have the special characteristics of strong production continuity and a high degree of self-control. The lessons and experiences of some enterprises also show that any incidence of managerial or technical negligence, mistake or dispute can result in a mishap, creating a great economic loss, even a gross calamity. Therefore, although there are many different organizational styles in the businesses of the industrialized nations, they all have one common characteristic. That common characteristic is the use of specialists implementing highly concentrated, unified leadership and guidance. However, in our enterprises which have imported equipment, not only are factory level leading groups overstaffed with deputies but the ration of cadre who understand the technology, economics and management is not quite one in three. The number of middle level leading cadre fills even more authorized strengths and yet the number of those attaining a university or polytechnic school level is still not better than one in three. This situation of overstaffing, multiple administrative levels, and this many amateurs in the ranks of the cadre creates one of the primary causes for the numerous disputes, low efficiency, bureaucratism, misdirection, numerous accidents, and unclear lines of responsibility in our imported enterprises.

3. Low Technical Levels of Labor and First Line Management

One more important reason that the work force is small and efficiency high in similar foreign enterprises is that the scientific and technical level of labor and basic level management is high. For example, the majority of operations personnel in a power plant have all graduated from college or gone through specialized training and have attained a college level expertise. It is also necessary for support technicians and management to have a general knowledge of modern power plant production. Safety personnel are not only expert in one thing and good at many, but a lot of them are also qualified for operations positions. This is in sharp contrast to our enterprises. Take for example a certain power plant with imported advanced equipment which has an overall total of 735 workers. The average technical grade is a mere 2.79 which is lower than the national average for the industrial work force.

4. Lagging Management Methods

Modern, advanced installations demand correspondingly advanced management methods.

In the power industry abroad, large capacity units universally adopt single element concentrated control. Central control rooms monitor operations through a screen display and controllers jointly use computers. Some plants even use computers for direct control of the entire plant. The three power plants we have imported still basically use minor specialized management. Although automated control has been partially realized in control rooms, controllers are still generally in the phase of knowing something is so but not knowing why. Fuel transport still remains a mechanical or hand-operated operation.

Thus, steadfast guidelines for a small work force, high efficiency and specialized cooperation should be adopted in modern industries with imported equipment and technology. This is the correct path to resolving the contradiction of advanced equipment and backwards management practices.

The Reason Reforms Produce Deficient Results

It should be pointed out that after imported equipment is brought on line, some enterprises feel they should insist upon guidelines for high efficiency and a small work force, and they implement reforms for specialized cooperation, but the results achieved are not great. To date, there still has been no relatively successful experiences concluded.

For example, a certain chemical fertilizer plant of equipment imported from the United States was constructed and brought on line at the end of 1976, with a work force of 1,520 people. Beginning in September 1979, reforms were carried out in this plant. The maintenance and repair shop for the fertilizer plant was placed under the unified management of the general plant mechanical repair shop. The hostel, cafeteria, stores and school were returned to the plant's life services company and education office, respectively. Some administrative technical offices also carried out corresponding simplifications and the work force was reduced to 315 personnel. However, doing this for more than a year not only did not facilitate production but brought on a lot of trouble. Production not only did not increase, it showed somewhat of a decrease. There was no choice but to change it back.

Paths To Resolve the Contradictions

Since advanced equipment and backwards management is the current primary contradiction, and it has already seriously affected the economic results of the imported equipment, what is the solution? There are only two paths to take. One is to put undue emphasis on national conditions making the imported equipment adapt to traditional management. The other is to give attention to national conditions while emphasizing foreign conditions and importing scientific management at the same time that technology and equipment are being imported.

Although those comrades who support the first concept admit, in theory, to the necessity for reform of our current management methods, when met with a practical problem, they can only stress that our population is great, our foundation poor, wage levels low, and it is necessary to have a priority resolution to the employment problem. The imported modern industries are no exception. Therefore, even though the technological level of the equipment is continually increasing, the need for personnel is also steadily increasing. This is not to say that maintenance and service personnel exist in name only but that the number of production personnel are greater than those abroad. Each shift of operating personnel on a similar foreign power plant, for instance, averages 5 people (the United States is the lowest with 2-3 people). Our 3 power plants all have approximately 12 people. The operations of a urea installation requires 7 people abroad while ours requires over 10 people.

We feel, in our economic work, that there should be a high degree of emphasis on employment problems, but this is not to say that all enterprises without exception should adopt the principle of lower wages, higher employment. The majority of imported self-contained plants are in capital intensive industries for which a low need for personnel and high efficiency are characteristic. If we do not emphasize this characteristic and, even as in the labor intensive industries, implement extensive measures to lower wages, increase employment, and do all without seeking personnel, not only will the subjective initiative of the work force be affected, but the production efficiency of the equipment will decrease, and an organizational abscess may even cause delays in everything. At present, employment problems universally exist in the industrialized nations as well, but the method for resolution is not to, without exception, implement lower wages and higher employment without discriminating between the nature of industries, but rather to solve the problem in labor intensive industries and support services. A further example is a power plant which originally had a work force of more than 1,200 and which began implementing reforms in 1978. Except for maintaining the operations, coal transport, heating and chemistry workshops, it has reunified the maintenance shop, cafeteria, hostel, motorpool, and others under the control of the services company and the inspection and repair office of the main power plant. In this way, the power plant work force was reduced to 813 people and the technical offices reduced to 56 people. However, following the reforms, matters troublesome to the power plant did not decrease. The debate over responsibility for the first instance of maintenance work was disputed for several weeks. The cafeteria was not well run and the workers preferred eating at privately owned food stands nearby. The result was that the majority of staff and cadre in the plant did not approve of this reform.

If not implementing specialized cooperation is unacceptable, how is it that implementing specialized cooperation is also unacceptable? We feel that the problem lies not in specialized cooperation itself, but in the process of implementation and in overlooking some of our special conditions. Chief among those special conditions are:

1. Dispersed Distribution of Similar Businesses

The site selection for chemical fertilizer and petrochemical plants originally should have placed them in those sites which would most easily give play to economic results and distributed them in relative concentration, only then would

favorable conditions be created for specialized cooperation. Furthermore, when we are establishing plants, we above all, often take into consideration political factors, even military factors, thus creating dispersed distributions. This not only created deficient economic results for some plants but also created difficulties for specialized cooperation by similar businesses. The 13 chemical fertilizer plants, for instance, were spread over the entire country on the principle of 1 plant per province. The result was that because the distance between plants was so great, it was difficult to establish specialized maintenance and service companies. It is being done with great effort and the cooperative economic benefit produced will be offset by the unreasonable transportation costs.

2. The System of Multiple Managers

For example, the four chemical fiber plants at Siquan, Changshou, Liaoyang, and Tianjin which were imported in 1972, are still under the leadership of four entities including the Ministry of Petroleum and the Ministry of Chemical Industries. The Tianjin Dagang power plant is situated in the suburbs and thus ought to be under the guidance of the Tianjin Municipal Power Bureau, but because the plant often has an oil supply crisis and the Dagang refinery generally only guarantees its customers about 30 percent, Tianjin is powerless to resolve this troublesome problem. Only if the plant is under the control of the Huabei Power Bureau can production at this plant be maintained.

3. Traditional Ideas of Large but Complete

In the past several years, due to being overly accustomed to the days of "large but complete," and not asking for help in anything, some cadre and groups feel unaccustomed to specialized cooperation. Some cadre even feel that to establish specialized companies would only relinquish the little bit of independence recently obtained, do away with the fiscal power and political institutions of the businesses, and make it even more difficult to deal with the two difficult matters of production and not having cash or party notes in hand. Thus, not long after the founding of specialized companies, some of the original institutions which had been abolished gradually returned, adjusting one group of cadre and further utilizing a group of cadre. The so-called main plants and companies only had one more administrative level.

4. Catching Up Lagging Technology

Even after the importation of advanced technology and equipment, because our industrial technology lags behind the industrialized nations by several years, it is very difficult for the laggard technology to catch up immediately. At present, the 13 imported plants have tried 1,007 domestically produced spare parts of 7,334 items. Of these there are 263 fittings in 5 key units. They have achieved pitiful results. However, when speaking of need alone, there is still some distance to go since several fittings must continue to be imported at high prices.

5. Patching Up Old Maintenance

Developing the potential of equipment is correct, however, from the economic results angle, it is not unlimited. Because all advanced technology of equipment has its natural and economic lifespans, they will all be controlled by the fact that the new supersedes the old. In a situation where science and technology develop swiftly, when the economic lifespan is extended, the technical characteristics grow older and lag farther behind. Furthermore, when some of our businesses overemphasize developing the potential of equipment, overlooking the inexorable law of depreciation, they do everything they can to use patched up maintenance, and even if they have spare parts they are unwilling to use replacements. This inevitably causes the maintenance business to become arduous and complicated. With these ideas for guidance, after equipment is imported, each plant must put together a vast, specialized maintenance power to cope with the complicated maintenance tasks.

6. No Responsible System of Guarantee

No matter whether it is intraplant cooperation or interplant cooperation, both are economic organization forms. Only if there are explicit responsibilities, feasible economic contracts established, rules for the cooperating sides to follow and records to check after a problem arises, can this organizational form have practical significance. Otherwise, it is only a form and that's all. Many enterprises make revisions without great results and this is one main reason.

The Outlook for Future Reforms

Experiences from abroad and the lessons from our reforms both show that if the main contradiction of imported equipment and backward management is to be resolved, we must import corresponding management methods when importing equipment while resolutely following the road of specialized cooperation. It is also necessary to, at the same time, squarely face our current practical difficulties and steadily adopt diversified reforms in accordance with existing conditions and the production characteristics of the imported equipment.

An imported modern power plant has a series of characteristics such as large capacity, high degree of automation, etc. It produces an invisible product whose quality, quantity, and cost do not depend completely upon the plant itself but are controlled by materials supply and the entire power network. Thus, unified management of the network by area is the current management trend by the worldwide power industry. From our standpoint, the distribution of power plants is still fairly concentrated and providing relevant adjustments are made for the jurisdictional questions of some power plants, and providing economic legislation and contract guarantees are strengthened, then specialized cooperation between areas can be successful. For instance, there are currently five power plants in the Tianjin area whose distribution is relatively concentrated and appropriately, the Tangshan power plant is the dominant one. A specialized company was established by the Tianjin Power Bureau which, first of all, through a strict system of contracts and responsibility, organized a training center for specialized maintenance companies and the power industry. They later expanded their scope steadily and when conditions were right established unified power companies in the Beijing, Tianjin, and Tangshan areas.

The large imported chemical fertilizer installations have the special characteristics of airtight cycles and continuous operations. They produce a tangible product and product quantity, quality, and cost depend mainly on the plant itself. A further consideration of the distribution of our large chemical fertilizer facilities and the specific conditions in the small and medium facilities where costs which are too high await regulation, shows that these businesses should primarily implement internal reforms first through study and importation of foreign advanced management experiences. Supportive cooperation between plants can be implemented. For example, under the unified coordination of the Ministry of Chemical Industries, interplant cooperation among the Hebei Cangzhou chemical fertilizer plant, the Shandong Shengli chemical fertilizer plant, and the Liaoning Liaohe chemical fertilizer plant could be implemented during periods of major maintenance. When one plant is undergoing major maintenance, engineering and technical strength from the other two plants could be transferred for support to fulfill responsibilities, meet schedules, and insure that the major maintenance is completed on time. This would not only benefit the training of technical ranks, solve the problem of insufficient technical strength during major maintenance but could, at the same time, also lay a foundation for later specialized cooperation.

Special characteristics of imported machinery processing equipment are single stage operations and independence. Such installations basically are labor and capital intensive type industries. While the product quality, quantity and cost depend on the technical level of labor, they also depend on the size of the labor force, the hours of labor, and the relative independence between plants. Such businesses should first implement internal reforms of specialized cooperation. For example, a plant in Xian whose major equipment was all imported from England even sent personnel to the British companies to study production organization management experiences. At present, this plant is in the midst of conducting tests on the program control of production which will, through the formulation of a program control outline for production, bring about programming for supply, production, inspection, and transportation, each of the links in the production chain, thus guaranteeing a balanced sequence in production. The tests have shown that these management methods have obvious effects on discovering hidden perils in the work and insuring product quality. It appears as though, in similar enterprises when conditions are right, further steady implementation of specialized cooperation between shops, plants and areas, beginning with internal workshop processes, is a feasible path to take under current conditions.

In summation, if we liberate thinking, are practical and realistic, boldly import advanced management methods at the same time we import advanced foreign technology and equipment; and carry out steady, diversified reforms in accordance with national conditions and industry characteristics, only then will the present contradiction of backward management and advanced equipment gradually achieve the solution of imported technology and equipment. Then and only then will even greater economic benefit be derived.

9705

CSO: 4006/4

GENERAL

SHANXI PHONE CONFERENCE ON FINANCE, TRADE WORK

HK040436 Taiyuan Shanxi Provincial Service in Mandarin 2300 GMT 2 Nov 81

[Summary] On the evening of 2 November, the Shanxi Provincial People's Government held a telephone conference calling on all the workers on the financial and trade fronts throughout the province to enhance their revolutionary vigor, go all out, work for the benefit of the enterprises and strive to accomplish this year's financial revenue task. The conference demanded that all areas do a good job of financial revenue work. The conference pointed out: It is necessary to extensively launch discipline inspection over financial and trade work in the province in accordance with the spirit of the two circulars of the provincial people's government; also, it is necessary to carry out thorough investigations.

The conference also pointed out: "In pushing forward the implementation of the economic responsibility systems, the enterprises must handle well the relationship between the interests of the state, the collective and the individual. It is necessary to rely on the improvement of the labor productive force but not to infringe upon the interest of the state in improving the living standard of the workers." The enterprises must retain a certain portion of profits in accordance with the state's stipulation and cannot change the proportion on their own initiative. The conference stressed: "While economizing on expenses, it is necessary to strictly control all kinds of expenses. We must resolutely forbid indiscriminate distribution of money at the yearend, in particular, distribution of bonuses. We must also prevent indiscriminate raising of bonuses." Vice Governor (Wang Ji) presided over the conference and spoke. He said: "Production is the basis of financial work. We must consolidate and develop the good situation of production which has appeared since September this year and continue to promote production, providing a more substantial and a richer material basis for financial trade. We must put an end to chaotic business management and correct all ill practices in violation of law and discipline. In order to obtain economic gains, the enterprises must rely on improving business management and improving the economic results." In conclusion, Comrade (Wang Ji) urged financial departments and banks at all levels to accomplish their tasks in order to promote work in an all-round way.

CSO: 4006/84

GENERAL

TIANJIN ENCOURAGES URBANITES TO MOVE TO SUBURBAN AREAS

SK310924 Tianjin City Service in Mandarin 1430 GMT 30 Oct 81

[Excerpt] According to our sources, a spokesman of the Tianjin Municipal People's Government has released a white paper on giving equal treatment to those who move from urban areas to new suburban residential quarters.

He said: The new residential quarters in Tianjin's suburbs, including (Dingzigu), (Beicang), (Miyunlu), (Changjiangdao), (Tiantenan), (Tiyuanbei), (Xiaohaidier), (Zhujiangdao), (Xinlicun), (Zhenlidao) and (Jiankangdao), will soon be completed. To solve the housing problem of earthquake victims, encourage the victims to move to new residential quarters and facilitate the dispersing of the urban population, the 49th meeting of the Standing Committee of the municipal people's government, which was held 23 October and presided over by Mayor Hu Qili, set forth the following stipulations:

First, those who move from urban areas to the new residential quarters will remain registered as urban residents. They will be guaranteed the freedom and the right to move back to urban areas in accordance with their needs.

Second, the supply of rationed daily necessities and commodities for everyday use to new residential quarters will be guaranteed. As for the supply of commodities in short supply, priority will be given to new residential quarters.

Third, in schooling and employment, children of residents in new residential quarters will be treated equally as urban residents.

Fourth, public transportation in the new residential quarters will be designed in the interest of the masses. Every new residential quarters must open direct bus lines to urban areas to ease passenger transfers.

CSO: 4006/87

GENERAL

BRIEFS

CHENGDU FINANCE, TRADE CONFERENCE--He Haoju, secretary of the provincial CCP committee, spoke at the provincial work conference on finance and trade. Comrade He Haoju said: The peasants are enthusiastic in selling agricultural sideline products to the state. However, we must pay attention to questions concerning procurement, allocation and transference of agricultural sideline products after multichannel business undertakings and profit-contract systems and award systems have been carried out. We must understand that whether or not we have fulfilled the procurement, allocation and transference of the state's quota is an important issue which relates to the implementation of the state's discipline in financial and economic affairs. To enliven the economy, we must practice multichannel business undertakings. However, the CCP committees at all levels and the people's government must strengthen leadership over procurement, allocation and transference of agricultural sideline products so as to guarantee fulfillment of the state's plan. After the management responsibility system has been practiced, apart from economic interests, the management departments should also consider economic effects and the interests of producers and consumers. [HK161300 Chengdu Sichuan Provincial Service in Mandarin 2300 GMT 12 Oct 81 HK]

GOODS IN STOCK--Beijing, 4 Nov (XINHUA)--Since the beginning of this year, many areas and departments in China have made use of goods kept in stock. According to incomplete statistics, 10 areas including Yunnan, Shanghai, Hebei, Henan, Heilongjiang, Gansu and Guangxi and 23 central government departments including the ministries of metallurgical industry, railways, petroleum industry and electric power industry and the seventh Ministry of Machine Building had utilized goods in stock with a total value of 1,407 million yuan in the first half of this year. The goods so utilized included 384,000 tons of rolled steel and machinery and electrical products valued at 902 million yuan. [Beijing XINHUA Domestic Service in Chinese 0035 GMT 4 Nov 81 OW]

CSO: 4006/87

PUBLICATIONS

BRIEFS

POLITICAL ECONOMY DICTIONARY--Beijing, 5 Nov (XINHUA)--The third and last volume of the "Dictionary of Political Economy," the first dictionary of its kind published in China, came off the press recently and will soon be distributed throughout the country. [Beijing XINHUA Domestic Service in Chinese 0152 GMT 5 Nov 81 OW]

ECONOMIC WEEKLY--Beijing, 6 Nov (XINHUA)--A specialized economic publication, the JINGJIXUE ZHOUBAO [ECONOMIC WEEKLY] will be published in January 1982. The new publication, sponsored by the All-China Federation of Economic Organizations, is designed mainly for readers among economic researchers, teachers and college students. [OW071125 Beijing XINHUA Domestic Service in Chinese 1322 GMT 6 Nov 81 OW]

CSO: 4006/87

INDUSTRY

STEEL MILLS COMPETE FOR EXPORTS TO HONG KONG

HK020146 Hong Kong SOUTH CHINA MORNING POST in English 2 Nov 81 Business News Supplement p 1

[Article by Nigel Gibson]

[Text] An export campaign by China's steel mills is putting mounting pressure on Hong Kong manufacturers who are already reeling from a strong U.S. dollar and rising production costs.

Prices for rolled steel bars--a staple ingredient for the construction industry--have tumbled to the lowest level for nearly a decade here as mini-mills in China have taken the unprecedented step of competing among themselves for a slice of the local market.

The strain on Hong Kong steel mills has also been highlighted by China's decision to step up its exports of high-tensile bars in addition to existing supplies of mild, or softer, steel rods.

According to Shiu Wing Steel, the largest manufacturer here with a 35 percent market share, competition has reached "cut-throat" proportions with the prospect of little relief next year when demands is forecast to shrink by about 15 percent.

The company's executive director, Mr Harry Pong, estimated that profit margins could be even tighter during the first half of next year as contracts engaged 2 or 3 years ago start to dry up against a background of cheaper imports from China.

"At current levels, no one, not even China, is making money," he said.

Although precise figures have not been released, it is estimated that China is currently exporting between 30,000 to 40,000 tonnes of steel rods a month to Hong Kong. Roughly half of this is high-tensile.

In value terms, total imports, including those from China, of all iron and steel bars and sections rose just over 11 percent to [Hong Kong \$988.5 million till July this year, compared with [Hong Kong] \$890 million during the same period last year.

China Resources Ltd, the main outlet for China-made steel, is quoting about [Hong Kong] \$1,440 per tonne, roughly [Hong Kong] \$100 per tonne lower than Japanese and Taiwanese exporters, while local mills are caught like a vice between the two.

Other major importers like South Africa have also been forced to slash prices.

Price-cutting by China has caused Japanese exporters, who last year supplied 200,000 tonnes of high-tensile rods to the Hong Kong market, to cut back exports drastically.

Falling demand, both at home and overseas, has already forced Japan's minimills to cut output by more than 30 percent.

According to a spokesman from Marubeni HK Ltd's metals division, prices for steel rods are almost certain to fall further before the end of the year.

He estimated Japan's exports to Hong Kong for this year could be 50 percent down on last year's total.

"So far this year, we haven't taken a single order for steel rods from Japan," he told BUSINESS NEWS.

China's determination to win a larger share of the local market for high-tensile rods--it already controls 90 percent of imports for mild steel--has caused minimills there to export direct to Hong Kong customers, cutting out traditional agents.

"They are literally falling over themselves to supply. In the past, they would sell through a single source like China Resources. Now shipment advice comes from China Resources, mills and other sources," explained Shiu Wing's Mr Pong.

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